Alberta

Freedom To Create. Spirit To Achieve.

Energy

Annual Report
2009-2010

Government of Alberta

Energy

2009-2010

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

The annual report of the Government of Alberta released June 24, 2010 contains Ministers' accountability statements, the consolidated financial statements of the Province and *The Measuring Up* report, which compares actual performance results to desired results set out in the government's business plan.

This annual report of the Ministry of Energy contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the Ministry business plan. This Ministry annual report also includes:

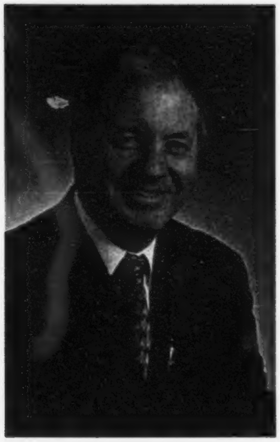
- the financial statements of entities making up the Ministry including the Department of Energy (DOE), the Energy Resources Conservation Board (ERCB), the Alberta Utilities Commission (AUC) and the Alberta Petroleum Marketing Commission (APMC);
- other financial information as required by the *Financial Administration Act and Government Accountability Act,* either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report; and
- financial information relating to trust funds.

Minister's Accountability Statement

The Ministry's annual report for the year ended March 31, 2010, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 23, 2010 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

Original signed by Ron Liepert
Minister of Energy

Message from the Minister



This past year Alberta Energy focused on ensuring our energy industry remained vibrant and continued to meet the growing demand in energy. The efforts we undertook in 2009-10 maintained our province's reputation as a leader in responsible resource development and supported Alberta's goal to be an energy leader now and in the future.

Our goals of achieving clean energy production, wise energy use and sustained economic prosperity set a strategic path to a brighter energy future. Over the last year, the work undertaken to achieve these goals enabled government to continue leading the way in responsible development and ensuring Alberta remains economically competitive. Each government ministry took action in 2009 by looking internally at ways to more efficiently provide services to Albertans. The collective savings resulting from those efforts helped lower the deficit and improve the government's fiscal position.

In 2009-10, government continued to strengthen Alberta's economy by working to enhance our economic competitiveness, attracting new investment and employment opportunities. We undertook a competitiveness review of Alberta's upstream oil and gas sector as a means to ensure our province remained an attractive destination for investment. In March 2010, government released the results of the review, which included recommendations to modify conventional oil and natural gas royalty rates, promote more innovation and use of technologies, and reduce unnecessary red tape while improving coordination of regulatory processes. This joint industry, stakeholder and government process will be the basis for future policy development.

We also embarked on a review to create a more efficient and effective regulatory system. A cross-ministry task force looked at the implementation of near-term regulatory enhancements; changes to support deployment of innovative, new technologies; and the process for comprehensive review of the regulatory system, with specific milestones and measurable objectives.

The Provincial Energy Strategy highlights adding value to Alberta's bitumen resource as a way to further Alberta's reputation as a world-class energy centre. Our goal is to see 66 per cent of bitumen processed in Alberta, extracting additional wealth from the resource and creating new jobs, income and opportunities for Albertans.

Innovation continued to be at the forefront as government strived to achieve clean energy production, another goal in the Provincial Energy Strategy. During this fiscal year, government signed Letters of Intent with four carbon capture and storage (CCS) project proponents for funding. These projects will help establish a strong foundation of Alberta's leadership in CCS. When operational, they will prevent millions of tonnes of carbon dioxide from entering the atmosphere each year. CCS will also play an important role in enhanced oil recovery. This ensures as much oil as possible can be produced from reserves as it helps the tough-to-reach oil move more easily to surface.

We also continued to support the advancement of technology through the Innovative Energy Technologies Program and the extended and expanded Bioenergy Producer Credit Program, an incentive program for producers of bioenergy products.

We are also addressing the issues that are facing our petrochemical industry. Through Alberta's *Competitiveness Act*, we are working with industry to evaluate the petrochemical and chemical sector, recognizing the need to secure additional ethane feedstock to sustain and grow this industry.

We took steps through legislation to ensure that critically needed upgrades to the province's electricity transmission system are built in a timely manner to continue delivering the power Albertans need. Strengthening Alberta's transmission system supports the Provincial Energy Strategy's goal of wise energy use by increasing the system's capacity, making it more robust and enabling Albertans to use electricity more efficiently.

This past fiscal year, department staff worked hard to support the goals of the Provincial Energy Strategy while meeting the energy needs of Albertans and others who depend on our energy supply. As we build upon the programs and actions we took over the last year, Albertans can look forward to continued interest and investment in our energy sector as well as an ongoing commitment from government to ensure a vibrant economy for Albertans.

Our province continues to be blessed by abundant resources, a skilled and productive workforce and an innovative, entrepreneurial culture. As we move forward with our programs, initiatives and policies, Alberta will continue to position itself as the most competitive place in North America to invest in safe, innovative, and environmentally responsible energy development.

Original signed by the Honourable Ron Liepert
Minister of Energy

Management's Responsibility for Reporting

The Ministry of Energy includes:

- Alberta Department of Energy (DoE/Department)
- Energy Resources Conservation Board (ERCB)
- Alberta Utilities Commission (AUC)
- Alberta Petroleum Marketing Commission (APMC)

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Energy. Under the direction of the Minister, we oversee the preparation of the Ministry's Annual Report, including consolidated financial statements and the performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The performance measures are prepared in accordance with the following criteria:

- Reliability – Information agrees with the underlying data and the sources used to prepare it.
- Understandability and Comparability – Actual results are presented clearly and consistently with the stated methodology and presented on the same basis as targets and prior years' information.
- Completeness – Performance measures and targets match those included in Budget 2009. Actual results are presented for all measures.

As senior executives, in addition to program responsibilities, we establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the Province under Ministry administration;
- provide Executive Council, Treasury Board, the Minister of Finance and Enterprise and the Minister of Energy any information needed to fulfill their responsibilities; and
- facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act.*

In fulfilling responsibilities for the Ministry, we have relied, as necessary, on the executive of the individual entities within the Ministry.

Peter Watson
Deputy Minister,
Department of Energy

Dan McFadyen,
Chairman, Energy Resources
Conservation Board

Willie Grieve,
Chairman, Alberta
Utilities Commission

Energy Highlights

Resource		2009-10	2008-09
Natural Gas and By-Product Royalty	Revenue	$1.53 billion	$5.83 billion
	Percentage of non-renewable resource revenue	23 per cent	49 per cent
	Average Alberta Gas Reference Price (ARP)	US$3.58/GJ	US$6.97/GJ
	Number of conventional natural gas wells drilled	3,208 (2009)	7,257 (2008)
	Total marketable natural gas production including Coalbed Methane (CBM)	4.4 trillion cubic feet (Tcf) (2009)	4.7 trillion cubic feet (Tcf) (2008)
	CBM production (excluding comingled gas)	229 billion cubic feet (Bcf) (2009)	220 billion cubic feet (Bcf) (2008)
	Total natural gas deliveries	4.3 Tcf (2009)	5.6 Tcf (2008)
	• To the United States	43 per cent	39 per cent
	• Within Alberta	27 per cent	37 per cent
	• To rest of Canada	30 per cent	24 per cent
Conventional Crude Oil	Revenue	$1.85 billion	$1.80 billion
	Percentage of non-renewable resource revenue	27 per cent	15 per cent
	Average price for West Texas Intermediate (WTI)	US$70.77/barrel (bbl)	US$85.94/barrel (bbl)
	Crude oil production	461,000 barrels per day (2009)	504,500 barrels per day (2008)
	Pentanes and condensate production	128,000 barrels per day (2009)	136,000 barrels per day (2008)
	Crude oil wells drilled	911 (2009)	1,720 (2008)
Synthetic Crude Oil (SCO) and Bitumen (Oil Sands)	Revenue	$3.16 billion	$ 2.97 billion
	Percentage of non-renewable resource revenue	47 per cent	25 per cent
	Bitumen wells drilled	2,211 (2009)	4,637 (2008)
	Oil sands production		
	• Total bitumen	1.49 million barrels per day (2009)	1.30 million barrels per day (2008)
	• Marketable bitumen and SCO	1.35 million barrels per day (2009)	1.19 million barrels per day (2008)
Combined Conventional and Synthetic Crude Oil	Revenue	$5.01 billion	$4.77 billion
	Production	1.94 million barrels per day (2009)	1.83 million barrels per day (2008)
	Total crude oil deliveries	2.31 million barrels per day (2009)	2.11 million barrels per day (2008)
	• To the United States	60 per cent	65 per cent
	• Within Alberta	21 per cent	17 per cent
	• To rest of Canada	16 per cent	16 per cent
	• Offshore	3 per cent	2 per cent

Resource		2009-10	2008-09
Bonuses From the Sale of Crown Leases	Revenue (bonus, plus application fees, plus first year's rent)	$1.17 billion	$1.11 billion
	Average price per hectare paid at petroleum and natural gas rights sales	$512.12	$420.86
	Petroleum and natural gas hectares sold at auction	2,210,393 hectares	2,056,859 hectares
	Average price per hectare paid for oil sands mineral rights	$133.42	$149.34
	Oil sands hectares sold at auction	61,257 hectares	1,434,249 hectares
	Bonus (total amounts bid on parcels of land) received from public offering of Crown petroleum and natural gas and oil sands rights	$1.14 billion	$1.08 billion
Freehold Mineral Tax	Revenue	$124 million	$261 million
Wells and Licences	Well licences issued	8,161 (2009)	16,837 (2008)
	Industry drilling	6,980 (2009)	15,021 (2008)
Coal	Revenue	$31 million	$36 million
	Established coal reserves (estimate)	33.4 billion tonnes (36.8 billion tons) (2009)	34 billion tonnes (37 billion tons) (2008)
	Amount of Alberta's electricity supplied by coal	60 per cent (2009)	59 per cent (2008)
	Total marketable coal deliveries	30.9 million tonnes (2009)	32.3 million tonnes (2008)
	Percentage of total coal deliveries exported out of the province	20 per cent (2009)	20 per cent (2008)
Electricity	Total generation capacity	13,007 MW (2009)	12,564 MW (2008)
	Total generation capacity from renewable sources	1,804 MW (2009)	1,738 MW (2008)
Metallic and Industrial Minerals[1]	Revenues from production of metallic minerals & industrial minerals	$557,700	$567,760
	Production of limestone	9,796,665 tonnes	8,820,896 tonnes
	Hectares of mineral permits issued to exploration companies[2]	2,559,856 hectares	5,065,592 hectares
	2009 diamond and uranium exploration program expenditures[3]	$1.2 million	$11.8 million
	Total metallic and industrial mineral exploration expenditures[4]	$16.6 million	$22.1 million

[1] Department of Energy

[2] Department of Energy

[3] Natural Resources Canada (Preliminary Estimates)

[4] Natural Resources Canada (Preliminary Estimates)

Financial Highlights

(Cdn $ millions)	2009-10	2008-09	2007-08	2006-07	2005-06
Natural gas and byproducts	1,525	5,834	5,199	5,988	8,388
Conventional crude oil royalties	1,848	1,800	1,655	1,400	1,463
Bonuses from the sale of Crown leases	1,165	1,112	1,128	2,463	3,490
Synthetic crude oil and bitumen	3,160	2,973	2,913	2,411	950
Rentals and fees	158	160	159	159	156
Coal	31	36	14	13	11
Drilling Stimulus initiatives	-1,119				
Alberta Royalty Tax Credit	-	-	-44	-174	-111
Total Non-Renewable Resource Revenue	6,768	11,915	11,024	12,260	14,347
Freehold Mineral Tax	124	261	247	317	334
Other revenue*	188	183	142	136	116
Total Revenue	7,080	12,359	11,412	12,713	14,797
Expenses*	388	395	296	223	201
Net Ministry of Energy Revenue	6,692	11,964	11,116	12,490	14,596

* Revenues and expenses are for the DOE, ERCB and AUC

Energy Powers Alberta

Alberta's foundations are built on energy. Energy development has shaped Alberta's history, communities and growth, and it stands to play an important part of Alberta's future.

In the most recent estimates, energy accounted for approximately 30 per cent of Alberta's total GDP in 2008. Impact of this activity is felt throughout the province, touching the daily lives of Albertans.

Energy powers Alberta in countless ways. Almost one-in-six Albertans is directly or indirectly employed in the energy industry. Further jobs and income are generated as companies and those employed by the industry spend their earnings on vehicles, clothing, food, shelter, home improvements and many other goods and services. Each new oil and gas well drilled in Alberta, for example, supports around 120 direct, indirect and induced jobs across Alberta's economy.

The energy industry contributes billions of dollars in revenues to the Government of Alberta, helping fund programs, services and infrastructure throughout the province. Revenues from resource royalties, taxes and land bonuses have enabled Albertans to enjoy competitive tax rates and a high standard of living. Energy companies contribute to Alberta communities, and also support a variety of local organizations, charities and events.

Substantial investment by the energy industry in research and innovation gives rise to many new technologies that improve quality of life and enhance the protection of Alberta's ecosystems. This investment also spurs new economic opportunities for Albertans in value-added processing, enhanced resource recovery and environmental services.

Alberta is blessed to have abundant energy resources. Effective and prudent management of these resources can generate sustained prosperity for our province, ensuring current and future generations of Albertans realize their full benefits.

REALIZING BENEFITS FOR ALBERTANS

The Alberta Crown owns approximately 81 per cent of Alberta's minerals – including oil, natural gas, oil sands and coal and other mineral resources. The remaining 19 per cent are freehold mineral rights owned by the federal government on behalf of First Nations or in National Parks, and by individuals and companies.

The Ministry of Energy manages Alberta's energy resources for the benefit of Albertans, helping ensure they are developed in environmentally responsible ways that bring benefits to Albertans.

The Ministry consists of the Department of Energy (DoE), the Energy Resources Conservation Board (ERCB) and the Alberta Utilities Commission (AUC). The Minister of Energy is also accountable for the Alberta Petroleum Marketing Commission, which is fully integrated operationally within the DOE. Each plays important roles in overseeing the orderly development of Alberta's energy resources.

DoE

- Is the steward of Alberta's energy system on behalf of all Albertans.
- Develops policy for and manages development of Alberta's non-renewable resources (including natural gas, conventional oil, oil sands, coal, and petrochemicals) and renewable energy.
- Grants industry the right to explore for and develop Alberta's energy and mineral resources.
- Establishes, administers and monitors the effectiveness of Alberta's fiscal and royalty systems regarding Crown minerals.
- Collects revenues from the development of Alberta's energy and mineral resources on behalf of Albertans.
- Promotes energy efficiency, conservation and innovation by Albertans and industry.
- Encourages investment in Alberta's energy industry to create jobs and economic prosperity for Albertans.
- Establishes the framework for responsible industry-led investment in electricity infrastructure and markets for the reliable delivery of electricity to all consumers.

ERCB

- Regulates the safe, responsible and efficient development of Alberta's energy resources: oil, natural gas, oil sands, coal and pipelines.
- Independently makes decisions regarding resource development in accordance with applicable legislation and within the framework of Alberta's overall energy policy.
- Establishes and applies technical standards for the safe and reliable operation of energy facilities in the province.
- Ensures that the discovery, development and delivery of Alberta's energy resources take place in a manner that is fair, responsible and in the public interest.

AUC	• Regulates investor-owned, and some municipality-owned, electric, natural gas and water utilities to ensure Albertans receive safe and reliable utility service at reasonable rates. • Independently makes decisions on the siting of electric power plants, electric transmission facilities and natural gas transmission pipelines. • Makes rules relating to the operation of the retail natural gas and electricity markets and adjudicates on market and operational rule contraventions brought to it by the Market Surveillance Administrator. • Ensures the delivery of Alberta's utility services takes place in a manner that is fair, responsible and in the public interest.

A PATH TO SUSTAINABLE PROSPERITY

The Ministry's stewardship of Alberta's energy system is guided in part by the *Provincial Energy Strategy*, which articulates a comprehensive plan and a vision for Alberta's energy future.

Alberta's Energy Vision

A global energy leader, recognized as a responsible world-class energy supplier, an energy technology champion, a sophisticated energy consumer, and a solid environmental citizen.

The *Provincial Energy Strategy* is centered on three desired outcomes that will leverage Alberta's energy resources to realize long-term benefits for Albertans – clean energy production, wise energy use, and sustained economic prosperity.

The Ministry's core businesses are aimed at supporting the vision and outcomes of the *Provincial Energy Strategy*. The Ministry's goals for 2009-10 were strategically linked to these core businesses.

Core Business One	Assuring energy supply and benefits from energy and mineral resource development for Albertans
Core Business Two	Leading and engaging citizens, communities, industry and governments to achieve effective stewardship of Alberta's energy resources
Core Business Three	Leading and supporting the development of energy related infrastructure, innovation, markets and regulatory systems

STRONG ENERGY LEADERSHIP

Despite tough economic challenges during the past fiscal year, Alberta remained a confident, strong and proud leader in responsible energy production.

A hallmark of Alberta's bold and enterprising spirit is our ability to meet and surmount challenges. The fiscal year of 2009-10 will be remembered as a year during which that spirit was tested – particularly in regards to Alberta's energy industry.

Worldwide recession, turmoil in financial markets, and decreases in global demand resulted in a volatile energy landscape as we entered the fiscal year. Levels of oil and gas drilling and resource investment were impacted as commodity prices struggled to recover. This rippled across the economy, affecting the employment and income of Albertans and Alberta businesses, and resulting in lower non-renewable resource revenues to the Alberta government.

Compounding these challenges were fundamental structural shifts in the energy marketplace. Aggressive competition from other jurisdictions, the relative maturity of Alberta's conventional resources, and increasing costs placed pressures on Alberta's competitive position. Advances in technology changed the natural gas game. This created new possibilities for the development of unconventional gas resources and threatened Alberta's market share in natural gas.

In the face of these challenges, Alberta Energy asserted strong energy leadership, taking bold and determined steps to ensure Albertans will continue to realize the benefits of their energy resources.

This included actions to strengthen industry activity and employment in the near term, and initiatives to leverage Alberta's energy resources to create further opportunities over the long term. It also included ongoing efforts to achieve sustainable economic prosperity, consistent with the directions of the *Provincial Energy Strategy.*

As the world emerges from recession, Alberta is strongly positioned to attract international investment, seize new economic opportunities, and maximize the value of its energy resources for the benefit of Albertans. Alberta will continue to position itself as one of the most competitive places in North America to invest in safe, innovative, and environmentally responsible energy development.

Meeting the World's Energy Needs

Despite facing a more challenging economy and energy marketplace over the past fiscal year, Alberta remains one of the world's leading sources of secure energy supplies.

Sitting atop the Western Canada Sedimentary Basin, Alberta is home to abundant deposits of oil, natural gas, oil sands and coal, making the province one of the most concentrated sources of fossil fuels in the world.

BOUNDLESS ENERGY

Alberta is Canada's largest energy producer and a key provider of energy to markets across North America and beyond. As global economic growth returns, Alberta stands ready to power that growth.

With a diverse platform of energy resources, a skilled workforce, strategic infrastructure, and a stable business climate, Alberta offers boundless energy opportunities. Alberta's energy industry is where ideas, innovation and investment come together – to meet the world's energy needs of today, and explore the new energy horizons of tomorrow.

One of the largest oil reserves in the world

- Alberta's oil sands are considered to be one of the largest oil reserves on Earth, containing over 1.7 trillion barrels of bitumen initially in-place. To date, approximately three per cent of the initial established resource has been produced.
- Remaining established oil sands reserves stand at 170 billion barrels recoverable using current technology.
- Conventional oil resources in Alberta are substantial, with 1.5 billion barrels of remaining established reserves and an ultimate recoverable potential of 19.7 billion barrels.

Vast supplies of natural gas

- Alberta has vast supplies of conventional and unconventional natural gas, including coalbed methane, tight gas and shale gas.

- Alberta has remaining established reserves of 39 trillion cubic feet of natural gas, and an ultimate recoverable potential of 223 trillion cubic feet.
- Coalbed methane in Alberta is estimated to contain up to 500 trillion cubic feet of natural gas. Only six per cent of natural gas production presently comes from coalbed methane.
- Alberta's shale gas deposits are geologically similar to those in the United States, and can be developed with similar technologies.

Diverse mineral potential

- Alberta has remaining established reserves of 33.4 gigatonnes of coal, with indications there are potential reserves of 2,000 gigatonnes of coal in-place underlying the province.
- Diamonds made up the single largest portion of metallic and industrial mineral exploration expenditures in Alberta in 2009.
- Interest in Alberta minerals also includes uranium, precious metals, base metals, ferrous metals and a range of industrial minerals.

Strategic energy infrastructure

- Alberta is home to a well established energy industry, including upstream oil and gas developers, downstream producers, and electricity producers.
- A vast network of energy infrastructure supports the development of energy products. This includes the Alberta "Hub," consisting of 412,555 kilometres of oil, gas and other pipelines that deliver energy to markets in Canada and the United States.
- Since 1998, approximately 5,500 MW of new electrical generation capacity has been added to the Alberta power supply, bringing the total firm generation capacity to over 12,100 MW.

A wealth of energy experience

- Alberta boasts a highly skilled, productive and creative workforce with diverse and extensive energy-related experience.
- Innovative partnerships between industry and post-secondary institutions assist in educating, attracting and retaining a range of highly-skilled professionals for employment in the sector.
- Alberta energy policy has been shaped by decades of experience with the energy industry, and is informed through productive dialogue between government and industry stakeholders.

Research for a cleaner energy future

- Alberta's $2-billion commitment to carbon capture and storage will result in a collection of projects, pipelines, storage and financing that is unique in the world.
- Through Alberta Innovates – the province's strategic Hub for research and technology innovation – Alberta supports the development of new processes and approaches that offer opportunities for cleaner and enhanced resource recovery.
- Alberta's Innovative Energy Technologies Program supports innovative technology development in the production of Alberta's oil, oil sands, and gas resources.
- Alberta is a leading province in Canada for the development of renewable wind power.

Value-added energy opportunities

- Alberta is Canada's leading producer of petrochemicals. The province is home to four ethane-cracking plants, including two of the world's largest, with combined annual capacity to produce 8.6 billion pounds of ethylene.
- Alberta's vast gas and oil supplies provide substantial opportunities and a reliable supply of feedstock for upgrading, refining and processing of higher-value energy products.
- Alberta's strong livestock, forestry, canola and grain base can provide a consistent feedstock for bioenergy. Alberta's Nine Point Bioenergy Plan is aimed at leveraging this potential to stimulate bioenergy development.

A commitment to responsible development

- Alberta is the only jurisdiction in North America with mandatory greenhouse gas emission reduction targets for large emitters across all sectors.
- Alberta's strict regulations and standards require that resource development happens in environmentally responsible ways that limit impacts on air, water, land and biodiversity.
- Alberta is adopting a cumulative effects management system that considers the combined effects of human activities on the landscape in making resource management decisions.

COMPETITIVE FOR THE FUTURE

The *Provincial Energy Strategy* provides a road map for strategically managing and leveraging Alberta's resources to achieve sustainable prosperity for Albertans. To enable Albertans to realize the full benefits of these resources, the Alberta government works to ensure Alberta remains an attractive place to invest in energy development.

In the wake of a dramatic global recession, and structural shifts in the marketplace – including volatility in energy prices and capital markets, and changes in the natural gas business – Alberta Energy worked to better position Alberta for success in achieving its energy objectives.

Incentives to maintain activity

To help stabilize employment and activity in the energy industry during the recession, Alberta Energy announced an incentive plan aimed at encouraging new oil and gas drilling. In June 2009, incentive programs for new and qualifying wells were extended to March 2011.

These short-term incentives recognize the economic importance of oil and gas exploration activity for Albertans and their families. The oil and gas sector is an important source of jobs and income for communities across the province, including many rural communities where small business owners benefit from the economic activity.

Attracting investment in the long term

In addition to short-term incentives, Alberta Energy led an initiative to ensure Alberta can compete for and successfully attract high levels of capital investment in its energy sector over the long term.

While investment in Alberta's oil sands resources remained relatively healthy, investment levels in gas and conventional oil development signalled concern about Alberta's competitiveness. Working with experts in the financial and energy sectors, and other ministries, Alberta Energy led a study to examine Alberta's attractiveness for upstream natural gas and conventional oil investment, relative to competing jurisdictions in Canada and the United States.

The results of this work culminated in *Energizing Investment: A Framework to Improve Alberta's Natural Gas and Conventional Oil Competitiveness.* This framework sets out actions in three areas to make Alberta one of the most attractive destinations in North America for oil and gas investment – modification of royalty rates; promotion of innovation; and improvement of the regulatory system.

Enhancing regulation for economic and environmental success

A key issue identified in the competitiveness review was the need to enhance Alberta's regulatory system for resource development. The regulatory system enables the development of Alberta's resources while providing assurance in three key areas – environmental protection, public safety and resource conservation.

Alberta already demonstrates strong leadership in these areas. Opportunities exist to enhance this leadership by ensuring Alberta has a modern regulatory system that facilitates development, reduces delays and associated costs, enables innovation, and improves clarity to industry and Albertans – while protecting the environment, public safety and the resource base.

Through the Regulatory Enhancement Project, the Department of Energy worked collaboratively with Alberta Environment, Alberta Sustainable Resource Development, the ERCB, and other ministries during fiscal year 2009-10 to comprehensively review the regulatory system. This work, which will continue through December 2011, is identifying and addressing opportunities to make near-term enhancements to the system; and to determine how to ensure Alberta's overall policy assurance and regulatory system is modern, flexible, efficient, effective, and supports innovation.

Alberta's Framework for Competitiveness

Energizing Investment calls for action in three areas to position Alberta as one of the most attractive places in North America to invest in upstream natural gas and conventional oil development.

- *Balancing the fiscal regime* – Modifying the royalty framework for natural gas and conventional oil effective January 1, 2011 to provide better risk-reward balance to investors, including competitive front-end and maximum royalty rates.
- *Driving innovation* – Supporting the discovery and deployment of new technologies that can unlock and optimize Alberta's vast oil and gas resources in cleaner ways, to augment Alberta's competitive edge in environmentally responsible energy production.
- *Improving the regulatory system* – Reducing red tape and better coordinating regulatory processes to ensure Alberta can competitively develop its oil and gas resources while maintaining strong environmental assurance for Albertans.

SHARING ALBERTA'S ENERGY STORY

There is heightened public interest about issues related to energy and the environment. People recognize the world will have increasing energy needs, especially as economic growth returns worldwide. They want to know the energy they use is produced in ways that are environmentally responsible and that energy resources are optimized and conserved as much as possible.

In this context, it is more important than ever that Alberta shares its energy story with national and international audiences. Albertans are demonstrating strong leadership – in terms of economic competitiveness, cleaner energy production, and environmentally responsible energy development.

A competitive place to invest

Alberta is one of the few open, stable and abundant sources of energy supplies in the world. With a commitment to free market principles and a stable democracy, Alberta is a safe place to invest in energy development.

Alberta also offers key competitive advantages – including a skilled workforce, robust energy infrastructure, exciting world-class energy research, a competitive fiscal framework, and a commitment to efficient and effective regulation.

Alberta Energy works to promote Alberta's energy opportunities to the world. During this past fiscal year, the Minister of Energy undertook several missions to engage investors, industry leaders and legislators in key financial markets, including Toronto, New York, London and Paris. These missions provided the opportunity to encourage investment in Alberta's energy sector, and to promote Alberta as a safe, stable, reliable and environmentally responsible supplier of energy.

An environmentally responsible energy producer

There is a lot of talk about Alberta's energy opportunities. It is important to set the record straight, and ensure people know that Alberta is an environmentally responsible producer of energy.

Alberta's strict environmental standards require that development of energy resources occurs in ways that limit impacts on air, water, land and biodiversity. Alberta is the only jurisdiction in North America with mandatory greenhouse gas emission reduction targets for large emitters across all sectors. The province has committed $2-billion to build knowledge in carbon capture and storage technology, and millions more to develop technologies that will enable sustainable growth. Substantial provincial investments are supporting research and innovation to better utilize water resources, reduce the environmental footprint of energy extraction, conserve the resource base and produce energy in cleaner and more efficient ways.

Alberta Energy worked throughout the year to raise awareness and share accurate information about Alberta's approach to energy development. The Ministry was involved in dozens of incoming international missions to Alberta, and also hosted the International Energy Agency in that agency's review of Canadian energy policy. These opportunities enabled the province to directly engage political, financial, industrial and thought leaders about energy development in Alberta.

The Parliamentary Assistant to the Minister of Energy also worked to raise international awareness about Alberta's leadership as an environmentally responsible energy producer. This included attendance at the 2009 Annual Meeting of the Energy Council; and a series of speaking engagements in Norway, England and Germany on the province's work to reduce greenhouse gas emissions and its investment in carbon capture and storage.

Resourceful and Responsible

The Ministry's work to strengthen Alberta's investment competitiveness – and to demonstrate that Alberta is a secure and environmentally responsible supplier of energy – were important for helping achieve Alberta's broader energy objectives.

The *Provincial Energy Strategy* provides context for those objectives, setting out a comprehensive plan for Alberta's energy future. During the past fiscal year, Alberta Energy pursued a number of initiatives in support of the strategy's three key outcomes: clean energy production, wise energy use, and sustainable economic prosperity. Highlights among these initiatives are included below.

CLEAN ENERGY PRODUCTION

Developing and pursuing cleaner methods of energy production is essential for Alberta's long-term energy success. This includes fostering new and alternative sources of energy, and developing traditional energy sources in more cleaner, greener ways.

Demonstrating leadership in carbon capture and storage

Alberta has made a $2-billion commitment to advance the development of carbon capture and storage technology in the province. Alberta Energy signed letters of intent with companies to support four carbon capture and storage projects that will help the province establish leadership in this area. The projects include:

- a large-capacity carbon dioxide pipeline that will serve as the backbone for carbon transportation;
- a commercial scale carbon injection project;
- retrofitting of a coal-fired electric plant to capture and store carbon dioxide using a leading-edge process; and
- an in-situ coal gasification project that will generate clean electricity and use captured carbon dioxide to enhance oil recovery.

Together, these four projects will capture and store more than five million tonnes of carbon dioxide per year by 2015.

Encouraging renewable energy development

Alberta introduced a Renewable Fuels Standard that requires blending of renewable fuels into gasoline and diesel fuel. This promotes markets for renewable fuels and opportunities for second generation "waste-to-energy" biofuel facilities. The Bioenergy Producer Credit Program was also extended to 2016. This credit will provide funding for a variety of bioenergy products, such as renewable fuels and electricity from biomass.

WISE ENERGY USE

Using energy in wiser ways will enable Alberta to optimize its energy resources and extract greater value from those resources for Albertans. Alberta can promote greater energy efficiency and encourage resource conservation through policy development and raising awareness among producers, industrial consumers and members of the public.

Promoting energy literacy

The Ministry collaborated with interested parties and government ministries to support the preparation of information about Alberta's energy industry. This included providing support to Alberta teachers in the delivery of energy-related materials within the context of curricula developed by Alberta Education. Alberta Energy was also a main sponsor of the International Student Energy Summit, hosted by the University of Calgary, which sought to engage youth on the importance of energy.

Enabling renewable power transmission and use

Enacted by the Alberta Legislature, the *Electric Statutes Amendment Act, 2009* came into force in December 2009. This Act approved the need for four critical transmission infrastructure projects, and laid the foundation for greener energy, lower-cost electricity, greater potential for renewable energy sources and future economic growth. These enhancements will allow a robust, reliable and efficient electricity transmission system to be available.

SUSTAINABLE ECONOMIC PROSPERITY

Alberta can generate sustained economic prosperity by strategically leveraging and managing its energy resources. Optimizing recovery from oil, gas and oil sands resources, tapping into unconventional gas resources, and exploring value-added energy opportunities will generate new opportunities for Albertans and enhance Alberta's long-term competitiveness.

Supporting technology to optimize our resources

Alberta's Innovative Energy Technologies Program represents a $200 million commitment over five years to support pilot and demonstration projects that use innovative technologies to increase recoveries from Alberta's gas and oil resources. In 2009, the program was amended to include oil sands mining projects. At the end of the 2009-10 fiscal year, 30 projects had been approved for funding and identified publicly. Other projects are in the process of having approvals finalized. These projects can help Alberta cross technology thresholds, extend the life of mature oil and gas fields, and tap into its substantial oil sands and unconventional gas resources.

Fostering value-added activity

To encourage the value-added process of oil sands resources within the province, the Alberta government has opted to take a portion of its royalty share as bitumen "in-kind". This will enable the government to process and market its share to encourage downstream processing within the province, which can realize greater value for Albertans. During 2009-10, the Ministry issued a Request for Proposals and led an evaluation of proposals for processing of Crown bitumen royalty volumes. Discussions with industry continue on the broader program design.

A commitment to partnership

Albertans and the energy industry have benefited from a productive partnership over many decades. This has enabled Alberta to unlock the potential of its energy resources and minerals and realize opportunities for Albertans. Alberta Energy works to build and maintain this partnership to further pursue Alberta's energy goals and achieve sustainable prosperity for our province.

RESULTS ANALYSIS

AUDITOR
GENERAL
Alberta

Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as "Reviewed by Auditor General" included in the *Ministry of Energy's 2009-10 Annual Report.* These performance measures are prepared based on the following criteria:

- Reliability – Information agrees with the underlying data and with sources used to prepare it.
- Understandability and Comparability – Actual results are presented clearly and consistently with the stated methodology and presented on the same basis as targets and prior years' information.
- Completeness – performance measures and targets match those included in Budget 2009. Actual results are presented for all measures.

My review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to my Office by the Ministry. My review was not designed to provide assurance on the relevance of these performance measures.

A review does not constitute an audit and, consequently, I do not express an audit opinion on these performance measures.

Based on my review, nothing has come to my attention that causes me to believe that the "Reviewed by Auditor General" performance measures in the Ministry's 2009-10 Annual Report are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability, and completeness as described above. However, my review was not designed to provide assurance on the relevance of these performance measures.

Original signed by Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
September 9, 2010

Performance Measures Summary Table

	Target	Last	Previous Actuals	
Goal / Performance Measure	**2009-10**	**Actual**	**Year**	**Year**
Goal 1: Under development for 2009-10. Performance measure will be reported on in 2010-11.				
Goal 2:				
Revenue collection: defaults on resource payments owed to the Government of Alberta: Energy revenues owed to the government, which are not recoverable	More than 99.99%	**Less than 0.0001% (2009-10)**	0% (2008-09)	0% (2007-08)
Audit adjustments to industry filing and reporting: * Absolute adjustments as a percentage of Department resource revenue (three-year moving average)	Less than 2.0%	**1.6% (2009-10)**	1.3% (2008-09)	1.5% (2007-08)
Goal 3:				
Carbon Capture and Storage: Report annual capture and injection of carbon in Alberta	5 Megatonnes by 2015	**n/a**	n/a	n/a
Upstream Oil and Gas Industry Investment: Upstream industry investment in Alberta – Annual capital expenditure in Alberta on exploration and development of oil, oil sands and gas resources ($ billions)	23 to 30 (2009)	**40.1 (2008)**	37.7 (2007)	37.7 (2006)
Goal 4:				
Ethane Demand in Alberta * In barrels per day	60,000 – 85,000 additional barrels per day	**222,000 (2009)**	223,000 (2008)	244,000 (2007)
Ethanol Production in Alberta Millions of litres	40 (2009)	**40 (2009)**	40 (2008)	40 (2007)
Biodiesel Production in Alberta Millions of litres	25 (2009)	**19 (2009)**	19 (2008)	0 (2007)
Goal 5: Under development for 2009-10. Performance measure will be reported on in 2010-11.				
Goal 6: Under development for 2009-10. Performance measure will be reported on in 2010-11.				
Goal 7: Under development for 2009-10. Performance measure will be reported on in 2010-11.				
Goal 8: Under development for 2009-10.				
Goal 9:				
Power Generation * Margin (MW) between Firm Generating Capacity and Peak Demand	Maintain a minimum 7% margin over peak load (2009)	**18% (2009)**	20%[1] (2008)	17%[1] (2007)
Goal 10:				
Protection of Public Safety * Percentage of field inspections finding High Risk regulatory noncompliance (ERCB)	Less than 3.5% (2009)	**1.7% (2009)**	2.1% (2008)	2.5% (2007)
Timeliness of the Needs and Facility Applications Percentage of needs and facility applications determined within 180 days of the application being deemed complete (AUC)	100% (2009)	**97.8% (2009)**	100% (2008)	N/A (2007)

	Target	Last	Previous Actuals	
Goal / Performance Measure	**2009-10**	**Actual**	**Year**	**Year**
Goal 11:				
Industry satisfaction				
• with Department services	80% or higher	**82%**	83%	84%
	(2009)	**(2009)**	(2007)	(2005)
• with Department electronic information management	80% or higher	**90%**	90%	90%
	(2009)	**(2009)**	(2007)	(2005)
Work Environment				
Department *				
• Employee Engagement	80% or higher	**75%**	76%	74%
	(2009)	**(2009)**	(2008)	(2007)
• Quality Work Environment	80% or higher	**75%**	77%	77%
	(2009)	**(2009)**	(2008)	(2007)
ERCB				
• Employee Engagement	74%	**80%**	81%	N/A
	(2009)	**(2009)**	(2008)	N/A
• Quality Work Environment	78%	**79%**	80%	
	(2009)	**(2009)**	(2008)	
AUC *				
• Employee Engagement	74%	**81%**	88%	N/A
	(2009)	**(2009)**	(2008)	N/A
• Quality Work Environment	78%	**81%**	86%	
	(2009)	**(2009)**	(2008)	

*** Indicates performance measures reviewed by the Office of the Auditor General. These measures were selected for review by Ministry management based on the following criteria established by government:**

1. **Enduring measures that best represent the goal and mandated initiatives,**
2. **Measures that have well established methodology and data reporting,**
3. **Measures that have outcomes over which the government had a greater degree of influence.**

For more detailed information, see the "Performance Measure Methodologies" section in Appendix A of the Annual Report.

[1] Data has been revised from results reported in the 2008-09 Annual Report due to a change in methodology (see "Performance Measures Methodology" section in Appendix A)

Discussion and Analysis of Results

OVERVIEW

The challenging economic conditions that hallmarked the previous fiscal year continued into the fiscal year of 2009-10. Volatile financial markets and recessionary conditions exerted downward pressure on commodity prices and led to reduced levels of oil and gas exploration and production. This had a substantial impact on non-renewable resource revenues.

Alberta Energy worked through these challenges, collaborating with other government ministries and industry to position Alberta's energy sector for longer-term success.

Expenses

Expense by Core Business

Financial Resources (thousands of dollars)	
Planned Spending (Estimates)	$501,336
Actual Spending in 2009-10	$387,961
Actual Spending in 2008-09	$394,800

Alberta Energy received $501.3 million in approved Planned Spending (Estimates) in 2009-10.

Total expenditures in 2009-10 were lower than Estimates by $113.4 million, primarily due to a reduction for carbon capture and storage support.

Overall in 2009-10, the Ministry realized a net $6.8 million decrease in actual spending compared to 2008-09. This was largely attributable to the end of the Energy Innovation Fund and a transfer of conservation funding to Environment. Offsetting these expenditure decreases was an increase in spending for Well Abandonment and Reclamation.

Expense by Core Business (Operating Expense)

Core Business	Spending (thousands)	% of Total
Core Business 1: Assuring energy supply and benefits from energy and mineral resource development for Albertans	$ 170,722	44.0%
Core Business 2: Leading and engaging citizens, communities, industry and governments to achieve effective stewardship of Alberta's energy resources	$ 7,502	1.9%
Core Business 3: Leading and supporting the development of energy related infrastructure, innovation, markets and regulatory systems	$ 209,737	54.1%
TOTALS	**$ 387,961**	**100%**

In accordance with the Government of Alberta accounting principles, Alberta Energy classifies its expenses into four functions. Each of these functions identifies the principal purpose for which Ministry expenditures are incurred.

Expense by Function

Expense by Function by Dollars (in thousands)	2009-10 Budget (Estimates)	2009-10 Actual	Comparable 2008-09 Actual
Agriculture, Resource Mgmt and Economic Development	$ 370,235	$ 261,171	$ 305,590
Transportation, Communications and Utilities	$ 35,038	$ 30,675	$ 28,100
Environment	$ 43,000	$ 43,000	$ 12,727
General Government	$ 53,063	$ 53,115	$ 48,383
TOTAL MINISTRY	**$ 501,336**	**$ 387,961**	**$ 394,800**

In relation to the Environment function, the increase in actual spending in 2009-10 compared to 2008-09 is the result of the one-year Well Abandonment and Reclamation program in the amount of $30.0 million.

Overall, approximately 67 per cent of the Ministry's expenditures support the function of Agriculture, Resource Management and Economic Development. A significant amount of actual expenses for 2009-10 relate to energy regulation expenses ($166 million, or 43 per cent).

Revenues, Prices and Production

Volatile energy prices resulted in lower levels of oil and gas exports, and reduced non-renewable resource revenues relative to 2008-09.

The precipitous drop in the price of the benchmark light crude oil, West Texas Intermediate (WTI), in the Fall of 2008 weighed on the sector at the start of the fiscal year. World oil supplies declined in 2009 as reduced world demand placed downward pressure on prices and turmoil in financial markets constrained levels of capital investment. Production levels of Alberta conventional crude oil decreased by 43,500 barrels per day from 2008-09 levels.

Oil prices gradually rebounded throughout the remainder of the fiscal year, as oil production decreases offset the drop in demand, and growth in Asia lent support to prices. The average price per month of WTI rose from US$49.95 per barrel in April 2009 to a range of approximately US$75-80 during the months of October 2009 through March 2010.

	Oil Price US$/b
April 2009	49.95
May 2009	59.21
June 2009	69.70
July 2009	64.29
August 2009	71.14
September 2009	69.47
October 2009	75.82
November 2009	78.15
December 2009	74.60
January 2010	78.40
February 2010	76.45
March 2010	81.29
2009-10 Average	**70.71**

While oil prices strengthened during the fiscal year, natural gas prices remained substantially off their levels a year earlier. Falling industrial demand for natural gas in the United States, combined with increasing U.S. shale gas production lifted natural gas inventories and depressed North American gas prices.

During the fiscal year, the monthly average Alberta Reference Price of natural gas fell to a new low of US$2.48 per gigajoule in September 2009, before rebounding to a range of approximately US$4-5 during the months of December 2009 through March 2010. The 2009-10 average natural gas price was US$3.58 per gigajoule, barely half the previous year's average price of US$6.97.

As a result, 4,000 fewer conventional natural gas wells were drilled in 2009 compared to 2008. Total natural gas deliveries in 2009 were down by 1.3 trillion cubic feet from 2008 levels.

Stronger oil prices and lower construction costs renewed interest in Alberta's oil sands during the fiscal year. Production of marketable bitumen and synthetic crude oil rose to 1.35 million barrels per day in 2009, up from 1.19 million barrels per day in 2008.

Natural Gas Prices $/GJ	
April 2009	3.41
May 2009	3.13
June 2009	2.97
July 2009	2.94
August 2009	2.72
September 2009	2.48
October 2009	3.40
November 2009	3.77
December 2009	4.51
January 2010	4.88
February 2010	4.68
March 2010	4.05
2009-10 Average	**3.58**

Because oil and especially natural gas prices were lower in 2009-10 than the previous fiscal year, non-renewable resource revenues decreased 43 per cent to $6.768 billion. These revenues represented about 17 per cent of total provincial government revenues in 2009-10.

The relative changes in oil and gas prices, and their impact on production levels, resulted in a shift in the makeup of non-renewable resource revenues. Whereas in previous years, revenues from natural gas and by-products had comprised the largest share of non-renewable resource revenues, these represented only 23 per cent in 2009-10. By contrast, synthetic crude oil and bitumen contributed the largest share of non-renewable resource revenues in 2009-10, representing 47 per cent of these revenues.

(Cdn $ millions)	2009-10	2008-09	2007-08	2006-07	2005-06
Natural gas and byproducts	1,525	5,834	5,199	5,988	8,388
Conventional crude oil royalties	1,848	1,800	1,655	1,400	1,463
Bonuses from the sale of Crown leases	1,165	1,112	1,128	2,463	3,490
Synthetic crude oil and bitumen	3,160	2,973	2,913	2,411	950
Rentals and fees	158	160	159	159	156
Coal	31	36	14	13	11
Drilling Stimulus initiatives	-1,119				
Alberta Royalty Tax Credit	-	-	-44	-174	-111
Total Non-Renewable Resource Revenue	6,768	11,915	11,024	12,260	14,347
Freehold Mineral Tax	124	261	247	317	334
Other revenue*	188	183	142	136	116
Total Revenue	7,080	12,359	11,412	12,713	14,797
Expenses*	388	395	296	223	201
Net Ministry of Energy Revenue	6,692	11,964	11,116	12,490	14,596

* Revenues and expenses are for the DOE, ERCB and AUC

Revenues in 2009-10 from coal production and the production of metallic and industrial minerals were largely unchanged from the previous year. Total marketable coal deliveries in 2009-10 were slightly lower than 2008-09, but the share of total deliveries exported out of province remained unchanged at 20 per cent.

In June 2010 the ERCB issued the annual report *ST98-2010: Alberta's Energy Reserves 2009 and Supply/Demand Outlook 2010-2019*, which details the supply of and demand for the province's diverse energy resources. All of the foregoing numbers and statistics are from the ST98 report unless otherwise stated, and all revenue numbers are from the Department financial statements.

GOAL 1 **Linked to Core Business 1 – Assuring energy supply and benefits from energy and mineral resource development for Albertans**

Alberta has a competitive and effective royalty system, incenting development and maximizing benefits to Albertans

Revenue from Alberta's energy resources are used by the Government of Alberta to fund key programs that benefit all Albertans. Alberta will sustain a royalty regime which attracts industry investment, creating economic activity and jobs. It also ensures that the government, as the resource owner, receives an appropriate share of revenues from the development of these resources. The government recognizes that a strong energy sector provides not only royalties for Albertans, but also jobs, business opportunities and tax revenue.

Key Achievements

Heading into the fiscal year, the effects of global recession placed downward pressure on commodity prices and dramatically impacted levels of activity in Alberta's energy industry. Compounding this were structural changes in the energy marketplace, which stood to erode Alberta's market share in natural gas.

Alberta Energy took steps to navigate these challenges and ensure Alberta continues to attract investment in energy development for the benefit of Albertans. This included the following:

- Implemented a three-point incentive program to stimulate drilling and abandonment and reclamation activity, in an effort to stabilize employment and activity in the industry in the short term. This included drilling royalty credits for qualifying wells and a new well incentive program. By the end of the fiscal year, $786,202,877 in drilling royalty credits were calculated. As of March 31, 2010, there were 6,842 gas wells and 2,160 oil wells approved under the New Well Royalty Rate program.
- Provided continued investment in the Orphan Well Association to support abandonment and reclamation of orphan sites. Orphan sites are licensed wells, pipelines, facilities or associated sites with no confirmed legally responsible or financially viable parties. The focus was on reducing a backlog of remediation (decontamination) and reclamation sites, and the grant money has allowed the Orphan Well Association to complete work on a considerable number of orphan sites. This helped to reduce the energy sector's environmental footprint and keep energy service crews at work during the economic slowdown. As of December 31, 2009, approximately $11.4 million was spent on abandonment and reclamation work in 56 different municipalities across Alberta.
- Undertook a major study in consultation with industry and other government ministries to examine Alberta's investment competitiveness in upstream natural gas and conventional oil development. Based on the study, Alberta Energy publicly released *Energizing Investment: A Framework to Improve Alberta's Natural Gas and Conventional Oil Competitiveness* on March 11, 2010. This framework set out a series of actions with the goal of positioning Alberta as one of the most attractive places in North America to invest in upstream gas and conventional oil.

Performance Measure:

1.a Sharing the Revenue from Resource Development

Discussion of Results

At publication of the 2009-12 Energy Business Plan, this performance measure was under review by the Department. Subsequently, a new performance measure has been developed for the 2010-13 Energy Business Plan. The new measure monitors the combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to other jurisdictions.

GOAL 2 **Linked to Core Business 1 – Assuring energy supply and benefits from energy and mineral resource development for Albertans**

Ensure all energy and mineral resource revenues, that the Government of Alberta is entitled to, are accurately calculated, collected and reported

Alberta will receive all revenues owed to it from the development of Alberta's energy and mineral resources. Ministry of Energy's business processes, systems and controls should result in accurate calculation, assessment and collection of all amounts that can and should be collected.

Key Achievements

In keeping with its mandate to manage Alberta's energy resources for the benefit of Albertans, Alberta Energy worked to improve its assurance mechanisms through the following:

- Completed a risk assessment and evaluation of assurance controls over well and production data. In September 2009, the results of the risk assessment and review were accepted by the joint Department of Energy and ERCB Volumetric Steering Committee. In November 2009, the Department accepted the mitigating actions being taken by the ERCB (issuance of ERCB Directive 76) to raise the level of compliance.
- Implemented new systems and enhancements to the Ministry's information technology systems to support the business of the Department of Energy, including tenure, resource revenue assessment and collection processes. The Department manages and maintains a wide range of technology tools and a significant number of custom applications designed to meet the specific needs of Albertans and the energy industry. Reliable and secure systems enable the Department to communicate with industry stakeholders to collect and distribute information.

Performance Measure:
2.a Revenue collection: defaults on resource payments owed to the Government of Alberta

Target:
More than 99.99% of all revenues owed are collected

Results:

			Year Ending March 31
	Actual 2007-08	Actual 2008-09	Last Actual 2009-10
Revenue collection: defaults on resource payments owed to the Government of Alberta: Energy revenues owed to the government, which are not recoverable	0%	0%	Less than 0.0001%

Source: Alberta Department of Energy

Discussion of Results
The measure considers only those debts that cannot be collected and therefore have to be written off as losses. The Department has procedures in place for recovering unpaid debts, however, revenues owed to the Government of Alberta may not be recovered in certain cases (for example, due to a debtor's bankruptcy). The Department has processes in place to manage these risks, including the ability to cancel leases and resale of the leases to recover debt due to the Department on unpaid royalties.

The Department wrote off $1,664 in 2009-10, which represents less than 0.0001 per cent of total revenue earned in the fiscal year.

Performance Measure:
2.b Audit adjustments to industry filing and reporting

Target:
Audit adjustments to industry filing and reporting to be less than 2.0 per cent.

Results:

			Year Ending March 31
	Actual 2007-08	Actual 2008-09	Last Actual 2009-10
Audit adjustments to industry filing and reporting: Absolute adjustments as a percentage of Department resource revenue (three-year moving average)[1]	1.5%	1.3%	1.6%

Source: Alberta Department of Energy

Note:

[1] The measure is based on absolute adjustments which reflect total error rates. The Department audits industry filings and reporting information that are used to calculate non-renewable resource revenue to ensure it is complete and accurate. Audit adjustments are an indicator of industry's understanding of, and compliance with, the Department's reporting requirements.

Discussion of Results

This performance measure assesses the compliance of industry with Alberta Energy's reporting requirements. The measure reports all adjustments whether they are in the Crown's favour or in industry's favour. The percentage of audit adjustments is used as an indicator to determine if industry misinterprets certain aspects of reporting, which leads to mistakes. The ultimate intent of the measure is to help to identify the reason(s) for errors in industry reporting, which will enable the Department to assist the industry in improving its reporting and, if necessary, to re-evaluate guidelines for industry.

The most recent three-year average results indicate that the absolute value of audit adjustments is 1.6 per cent of associated resource revenues. The average annual absolute dollar value of adjustments arising from audits completed or processed for the three-year period ending March 31, 2010 was $146.7 million on an average annual resource revenue base of $9.2 billion. The average annual net dollar value of net adjustments for the same period was $72.1 million in the Crown's favour.

The absolute value of audit adjustments for the three-year period ending March 31, 2010 increased from both the three-year periods ending March 31, 2009 and March 31, 2008. Significant areas impacting the results include:

- Synthetic crude and bitumen – adjustments have increased due to an increase in the number of audits that were completed for the fiscal year ending March 31, 2010 in comparison to the fiscal year ending March 31, 2007. The increase in the number of audits completed is a reflection of increased staffing for this area. The increase in the value of audit adjustments was partially offset by an increase in revenues from synthetic crude and bitumen from 2007 to 2010 which reflects the increase in the price of oil and in production volumes over this period.
- Natural gas and related byproducts – although actual audit adjustments declined in the fiscal year ending March 31, 2010 from those recorded in the fiscal year ending March 31, 2007 this was offset by a significant decline in natural gas royalties for the fiscal year ending March 31, 2010 which resulted in an increase in the calculated error percentage. The decline in natural gas royalties is the result of the economic decline in our major trading partner, which weakened demand and resulted in lower commodity prices. This was combined with the development of new sources of natural gas, which has the competitive advantages of being closer to the marketplace and less costly to produce. The reduction in the value of audit adjustments processed is believed to be reflective of more training provided to industry and more timely audits. The Department continues to focus on training industry filers in the requirements for the calculation of the Alberta Gas Reference Price and identify opportunities to reduce the complexity of the filing requirements.

Performance Measure Under Development:

At publication of the 2009-12 Energy Business Plan, there was a performance measure under development by the Department, detailed as "Accuracy of royalty information, calculations and reporting (based on volumetric information, calculation and reporting of royalties, and industry filing)."

Subsequently, two new performance measures have been developed for the 2010-13 Energy Business Plan. The first measure gauges the level to which revenues from oil, oil sands, gas and land sale bonuses are accurately calculated, with the second measure gauging if the revenues are fully collected.

Ensure energy and mineral resource development occurs in a responsible, environmentally sustainable manner and achieves the Government of Alberta's outcomes

The Ministry works within the province's existing policy framework to improve energy production practices in Alberta, encouraging clean energy production and continued industry investment in future energy development from non-renewable and renewable sources. The Ministry addresses emerging energy and mineral trends in a responsible manner that protects the environment and public safety while integrating broader considerations of social, economic, resource, environmental and cumulative effects.

Key Achievements

Environmentally responsible energy production will help boost Alberta's long-term economic competitiveness. Cleaner energy production is a key outcome of the *Provincial Energy Strategy,* which provides a comprehensive plan for leveraging Alberta's resources to achieve sustainable prosperity for Albertans.

Alberta Energy worked to support this outcome of the *Provincial Energy Strategy* through a number of initiatives, including the following:

Reducing emissions

- Led a detailed cross-ministry evaluation process of proposed carbon capture and storage projects. Letters of intent were signed with four projects, which will capture and store more than five million tonnes of CO_2 per year by 2015. The Department continues to negotiate grant agreements with the project proponents.
- The Department worked to develop policy recommendations to address barriers to carbon capture and storage deployment. It also developed plans to undertake a detailed review of existing regulatory policies to identify any necessary refinements to ensure the safe, responsible, and efficient development of carbon capture and storage in Alberta.

Protecting air, water, land and biodiversity

- Played a crucial role in the development of the Lower Athabasca and South Saskatchewan Regional Plans, working in collaboration with the Land-use Secretariat and cross-ministry partners to provide policy and technical advice on energy and mineral development, conservation and biodiversity, and air and water management frameworks.
- Led a review of both the type and way information is provided on surface and environmental concerns prior to the public offering of Crown mineral rights. The review will ensure that information (e.g. regionally specific environmental requirements) required to support the achievement of regional plan outcomes continues to be easily accessible and shows the right amount of information.
- Teamed with the Land-use Secretariat to ensure that First Nations become aware of the mineral rights allocation implications that flow from designating land-use areas. Joined other Alberta ministries in working directly with industry and First Nation representatives on the Tripartite Ideas Group reviewing Alberta's First Nations consultation policy.

Performance Measure:
3.a Carbon Capture and Storage

Target:
Storage of five million tonnes of CO_2 annually by 2015

Results:

	Year Ending December 31		
	Actual 2007	Actual 2008	Last Actual 2009
Carbon Capture and Storage: Report annual capture and injection of carbon in Alberta[1]	N/A	N/A	N/A

Source: Following the execution of the funding agreements of the projects selected, the data sources available will be investigated for accuracy and applicability for this business goal.

Note:

[1] This data is currently being collected by the ERCB and Alberta Environment.

Discussion of Results
Currently the projects selected for funding are expected to be operating by 2015, therefore no carbon dioxide has yet been stored by these projects.

Performance Measure:
3.b Upstream Oil and Gas Industry Investment

Target:
Annual industry investment in the upstream oil and gas industry will be in the $23 to $30 billion range

Results:

	Year Ending December 31		
	Actual 2006	Actual 2007	Last Actual 2008
Upstream Oil and Gas Industry Investment: Upstream industry investment in Alberta – Annual capital expenditure in Alberta on exploration and development of oil, oil sands and gas resources[1] ($ billions)	37.7	37.7	40.1

Source: Statistics Canada's Private and Public Investment (PPI) publication

Note:

[1] The Private and Public Investment publication is reported two years behind. The results of this measure do not include bonuses from the sale of mineral rights.

Discussion of Results
Continued investment in Alberta's energy sector demonstrates the competitiveness and attractiveness of resource development in Alberta. While industry investment is driven largely by commodity prices which government has no control over, government fosters an investment environment through a competitive tax and royalty regime that, over the long term, encourages continued development of Alberta's energy resources.

Albertans benefit from industry investment through jobs, business opportunities, taxes paid to all levels of government and resource revenues. These revenues are used to fund a variety of projects and programs including health and education.

The most current actual investment data represents the 2008 calendar year. In 2008, upstream oil and gas industry investment in Alberta reached a record total in 2008 at $40.1 billion, which significantly exceeded the target of $23 billion. While conventional oil and gas investment declined by seven per cent in 2008 to $19.4 billion from $20.8 billion in 2007, this result was offset by investment in the oil sands achieving an annual record of $20.7 billion in 2008, a 23 per cent increase from the 2007 level.

GOAL 4 Linked to Core Business 1 – Assuring energy supply and benefits from energy and mineral resource development for Albertans

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The Ministry and its partners have the required policies and programs to encourage value-added development in Alberta

Alberta can achieve significant benefits by encouraging energy resources be upgraded further along the value chain into higher value commodities and products. Alberta has a world-class petrochemical industry based mainly on ethane from conventional natural gas resources. The oil sands provide considerable potential for new refining capacity, for petrochemical feedstocks from upgrader off-gases and for a broader range of petrochemicals based on petroleum. These new opportunities, when combined with Alberta's natural gas liquid based petrochemical industry, create significant potential for more value-added development in Alberta.

Key Achievements

Consistent with the *Provincial Energy Strategy,* Alberta Energy worked to enhance opportunities that realize sustained economic prosperity from Alberta's resources. This included efforts aimed at fostering greater value-added production of Alberta's resources and to enable Albertans to realize the full benefits of these resources. The Ministry also explored opportunities to diversify Alberta's energy markets, and to help Alberta to better hedge against market risks.

Fostering value-added development

- Issued the Bitumen Royalty In-Kind (BRIK) Request for Proposals for processing Crown royalty volumes, in addition to leading the evaluation of proposals. The Department is also leading discussions with industry on the broader program design for BRIK. Taking in-kind bitumen royalties provides the opportunity to process and market the bitumen to encourage value-added processing within the province.
- Coordinated a proposal to change the Ethane Consumption Baseline (ECB) after consultation with industry stakeholders indicated that the baseline was too high as a result of significant natural gas market shifts. This change will help the province adjust to market realities.
- Continued coordination with industry stakeholders, which led to two projects approved under the Incremental Ethane Extraction Program (IEEP) coming into production in 2009. The IEEP encourages greater levels of ethane extraction within the province, facilitating a supply of ethane feedstock for further value-added processing in Alberta's petrochemical sector.
- Introduced Alberta's Renewable Fuels Standard in March 2010 and extended the Bioenergy Producer Credit Program to 2016. The Bioenergy Producer Credit Program provides funding for a variety of bioenergy products, such as renewable fuels and electricity from biomass. Alberta's Renewable Fuel Standard requires the blending of renewable fuels into gasoline and diesel fuel thereby promoting markets for renewable fuels and providing opportunities for second generation "waste to energy" biofuel facilities. Bioenergy offers substantial value-added potential for Alberta's forestry and agricultural sectors, and the prospect of new jobs, income and opportunities for Albertans.

Exploring expansion of energy markets

- Investigated transportation options for improved west coast access to build interest in Alberta as a prime location for investment. The Ministry also conducted meetings with a number of potential transporters to discuss proposals to transport product to the west coast.
- Completed studies to understand the feasibility of a west coast pipeline to access new markets. Government is assessing tools and levers to facilitate a west coast pipeline and is monitoring and participating where appropriate in the regulatory hearings for pipeline approvals. The Alberta government supports a pipeline to tidewater, which would give Alberta the ability to transport energy products to markets beyond North America. This work is dependent on other related initiatives and specific timelines will be determined in the future.

Performance Measure:

4.a Ethane Demand in Alberta

Target:

60,000 – 85,000 additional barrels of ethane extracted per day over the next five years[1].

Results:

Year Ending December 31

	Actual 2007	Actual 2008	Last Actual 2009
Ethane Demand in Alberta – in barrels per day[2]	244,000	223,000	222,000

Source: ERCB ST-98, 2010

Notes:

[1] Additional production above forecasted Ethane Consumption Baseline data by the end of the Incremental Ethane Extraction Program. For more detailed information, see the "Performance Measure Methodologies" section in Appendix A of the Annual Report.

[2] Includes small volumes used for enhanced oil recovery.

Discussion of Results

Ethane is recovered mainly from the processing of natural gas. Gas processing plants in the field extract ethane along with propane, butanes, and pentanes plus as products or recover a Natural Gas Liquids (NGL) mix from raw gas production. NGL mixes are sent from these field plants to fractionation plants for the recovery of individual NGL specification products. Straddle plants recover NGL products from gas processed in the field.

All of the ethane extracted in 2009 was used in Alberta as feedstock to the extent that supply equalled demand. About 56 per cent of total ethane in the gas stream was extracted, while the remainder was left in the gas stream and sold for its heating value.

The petrochemical industry in Alberta is the major consumer of ethane recovered from natural gas, with four plants using ethane as feedstock for the production of ethylene. The Joffre feedstock pipeline allows for a range of feedstocks to be transported from Fort Saskatchewan to Joffre. These feedstocks supplement the ethane supplies now used at the petrochemical plants at Joffre, where three of the four ethylene plants are located. The fourth is located in Fort Saskatchewan.

The petrochemical industry in North America has been challenged in the last few years by high and volatile energy prices. Since ethane prices follow natural gas prices, feedstock costs have fluctuated throughout the years. Some of the issues that have kept ethane production low throughout 2009 were:

- Pipeline tolls for transporting natural gas;
- Continuing surplus of low cost gas (including the emergence of low cost shale gas plays);

- Ethane content of natural gas reaching straddle plants; and
- New demand in Alberta is intra-provincial.

Nonetheless, the Alberta ethylene industry has maintained its historical cost advantage for ethylene production compared to a typical ethane/propane cracker in the U.S. Gulf Coast.

Performance Measure:
4.b Ethanol Production in Alberta

Target:
300 million litres by 2015

Results:

	Year Ending December 31		
	Actual 2007	Actual 2008	Last Actual 2009
Ethanol Production in Alberta – millions of litres	40	40	40

Source: Alberta Department of Energy.

Discussion of Results

Ethanol is usually derived from corn and grain, and can be blended with gasoline to be used as a fuel. Ethanol is clean burning and may improve fuel economy. As emerging technologies ("second generation technologies") come into commercial use, ethanol will be produced from woody materials, which are in abundant supply in Alberta. Waste forest biomass, such as forest slash, forest mill waste, and trees destroyed by the mountain pine beetle are of particular interest to future ethanol producers.

Three grant programs were introduced under the Nine-Point Bioenergy Plan in support of government's commitment to the advancement of renewable fuels and bioenergy in Alberta. To monitor the outcomes of these programs, the Department of Energy tracks ethanol and biodiesel production in Alberta.

The Alberta government passed the Renewable Fuels Standard (RFS) Regulation in March 2010. This includes a requirement for an average annual blend of five per cent ethanol in gasoline sold in Alberta, starting in April 2011. To ensure the RFS environmental objectives are met, biofuels used to meet Alberta's RFS must, on a life cycle basis, demonstrate 25 per cent fewer greenhouse gas emissions than equivalent fossil fuel.

Increasing Alberta's bioenergy (ethanol and biodiesel) production capacity supports the *Provincial Energy Strategy* outcomes of clean energy production and sustained economic prosperity. Bioenergy production helps to reduce our reliance on fossil fuels by increasing the use of renewable energy sources, while supporting the economic sustainability of regions that are rich in biomass. Increasing bioenergy production also contributes to greening energy production, as outlined in the *Climate Change Strategy.*

Annual results reported for ethanol and biodiesel (performance measure 4.c) are for current plant capacity, not actual production. Annual production statistics from the two existing biofuel plants (one ethanol and one biodiesel) are confidential. When the number of plants in Alberta is sufficient to protect commercial information, total production numbers may be reported. Permolex Limited currently has a capacity of 40 million litres per year.

The Alberta target of 300 million litres of ethanol per year by 2015 is based on the uncertainty as to when advanced second generation technologies will be able to make a significant contribution to production capacity. The ethanol production performance target may be revised after the 2010-11 fiscal year. At that time, there will be greater certainty as to the outcome of the bioenergy programs, particularly with respect to new capacity.

Performance Measure:
4.c Biodiesel Production in Alberta

Target:
700 million litres by 2015

Results:

			Year Ending December 31
	Actual 2007	Actual 2008	Last Actual 2009
Biodiesel Production in Alberta – millions of litres	0	19	19

Source: Alberta Department of Energy

Discussion of Results
Biodiesel is a renewable fuel derived from organic substances, such as vegetable oil or animal fats. It can be blended with petroleum-based diesels, and has been shown to significantly reduce emissions.

The three programs under the Nine-Point Bioenergy Plan also support biodiesel production.

The Renewable Fuels Standard (RFS) includes a requirement for an average annual blend of two per cent biodiesel from renewable sources in diesel fuel sold in Alberta, starting in April 2011.

At the end of fiscal year 2009-10, Western Biodiesel was the only commercial biodiesel production plant in Alberta, with a capacity of 19 million litres.

The Alberta target of 700 million litres of biodiesel per year by 2015 is based on the abundance of biodiesel feedstock that can be utilized with existing biodiesel production technology. The biodiesel production performance target may be revised after the 2010-11 fiscal year. At that time, there will be greater certainty as to the outcome of the bioenergy programs, particularly with respect to new capacity.

GOAL 5 **Linked to Core Business 2 – Leading and engaging citizens, communities, industry and governments to achieve effective stewardship of Alberta's energy resources**

Albertans are aware of and understand existing and emerging trends and opportunities relating to energy development and use in Alberta

Improved understanding, awareness and education about Alberta's energy resources and issues will be essential to responsible development and use of these resources. There is a need to provide Albertans, other Canadians and international audiences with information about how the province develops and uses energy, economic benefits, our environmental challenges and the environmental protection measures that are already in place or planned. Increased awareness and understanding of changing energy trends, new energy sources and issues related to the development of energy will also provide Albertans with a better basis on which to become involved in discussions around energy development and encourage them to seek careers in the energy sector.

Key Achievements

Heightened public interest about the economy, energy and the environment created excellent opportunities for Alberta to share its energy story with national and international audiences. A key part of that story is Alberta's position as one of the few open, stable and abundant sources of energy supplies in the world, and the competitive advantages our province offers investors.

An equally essential part of the story is Alberta's dedicated efforts to ensure its energy resources are developed in environmentally responsible ways. This includes strict environmental standards, leading work on carbon capture and storage, and world-class research into cleaner energy production and resource optimization.

Alberta Energy helped share Alberta's energy story with the world through a number of accomplishments, including the following:

Engaging national and international audiences

- The Department was involved in a variety of missions that focused on increasing knowledge and understanding of Alberta's energy industry among external stakeholders. This included significant engagement with provincial, federal and territorial counterparts, as well as involvement in at least 37 incoming international missions.
- The Department also supported or led nine outgoing international missions for elected officials, including the Premier, Minister of Energy and/or Parliamentary Assistant for Energy. These missions provided the opportunity for Alberta to promote its investment competitiveness, its resource opportunities and its leadership in working to ensure environmentally responsible development of its energy resources.
- Sponsored the International Student Energy Summit, hosted by the University of Calgary, which sought to engage youth on the importance of energy.
- Led and supported a variety of strategic initiatives and discussions, including:
    - Hosted the International Energy Agency as part of its 2009 in-depth review of Canadian energy policy;
    - Supported negotiations toward the creation of an energy chapter within the Agreement on Internal Trade;
    - Represented Alberta's energy interests as part of the Federal Government's consultations for the Comprehensive Economic and Trade Agreement (CETA) negotiations between Canada and the European Union;
    - Supported missions for the Minister of Energy to highlight recent changes to Alberta's energy industry to increase its competitiveness.

Enhancing energy literacy

- Alberta Energy also worked on an ongoing basis to provide information and respond to public inquiries about Alberta's energy development. Through Alberta Energy's Public Information Centre (PIC), the Ministry responded to 1,593 telephone queries, 892 emails through Alberta Connects, 107 phone and email inquiries from the Minister's Office and the Deputy Minister's Office, and 1,294 letters. The PIC provides timely and informative responses to questions and comments from the public, providing a measure of the effectiveness of communications surrounding the energy and utility sectors.
- Monitored the volume of traffic on the Alberta Energy website, which indicates how useful the public finds Alberta Energy's communications of information and advice. Web Trends,

a statistical tracking tool, reports the number of visitors to Alberta Energy's website. In the 2009-10 fiscal year, the main Energy website had 4,265,895 visits, an average of 353,491 per month. Web pages are reviewed quarterly to ensure content is accurate and up to date.

- Worked proactively to identify, communicate and address emerging issues related to energy development. In addition to news releases on a variety of energy topics, the Department wrote and published articles in key publications on subjects relating to Alberta's energy leadership, including its work on carbon capture and storage. Alberta Energy also used social media as a proactive tool. Tracking social media tools, including following blogs and twitter feeds, as well as media monitoring, are done on a daily basis as a means to stay apprised of emerging issues.
- Provided support to organizations specialized in the development of teaching materials, to aid Alberta teachers in the delivery of energy-related materials within the context of curricula developed by Alberta Education. The Department also collaborated with other interested parties and government departments to support preparation of information about Alberta's energy industry.

Performance Measure:

5.a Survey of Alberta Public Awareness of Energy Issues

Discussion of Results

At publication of the 2009-12 Energy Business Plan, this performance measure was under development by the Department. Subsequently, a new performance measure has been developed for the 2010-13 Energy Business Plan. The new measure is a biennial survey that gauges Albertans Assessment of their Energy Knowledge.

GOAL 6 **Linked to Core Business 2 – Leading and engaging citizens, communities, industry and governments to achieve effective stewardship of Alberta's energy resources**

Industry, citizens, and communities conserve and use energy wisely

Managing energy efficiency and conservation is one of the most effective mechanisms to address issues of rising energy costs, environmental impact and our competitive advantage. Investing in energy efficiency and adopting leading conservation practices will translate into producing goods and services with simply, less energy. Reducing the energy intensity per dollar of GDP has significant benefit to Albertans including: lower impacts on the environment, reduced costs to individual residents, improved industry competitiveness and enhanced economic development.

Key Achievements

Encouraging energy efficiency will help boost Alberta's long-term economic competitiveness. Reducing our consumption frees up additional energy resources that can be used further along the value chain, creating new economic opportunities while reducing emissions. Leadership in energy efficiency and resource conservation also helps position Alberta as a leader in environmentally responsible energy production. Wise energy use is a key outcome of the *Provincial Energy Strategy.* Alberta Energy worked to support the achievement of this outcome in a number of ways:

Encouraging smarter energy use in oil and gas development

- Continued to lead a government/industry committee to identify ways to facilitate fuel gas efficiencies in upstream oil and gas processing. In 2009, the top 15 fuel gas consumers in Alberta were surveyed to obtain information on fuel gas efficiency. Most companies surveyed found the Best Management Practices, developed by the Fuel Gas Efficiency Committee, to be a useful tool in complementing company programs to reduce fuel gas use. The committee will continue its work to identify opportunities to support better management of fuel gas.

- Oversaw contract work on an oil sands energy efficiency project feasibility study, including plans to conduct a pilot integrated audit of an operating Steam Assisted Gravity Drainage (SAGD) facility.

Planning to support a more energy efficient Alberta

- Developed an Energy Efficiency Policy Framework to give direction to government actions arising from the 2008 *Climate Change Strategy* and the 2009 *Provincial Energy Strategy.* The framework includes strategies that will put in place the necessary data, tools and processes for monitoring and reporting. These strategies will lead to identification of opportunities and taking action in specific sectors to transform how we use energy in Alberta.
- Directed the Alberta Utilities Commission to inquire into Smart Grid. They will review how smart grid technology such as advanced metering or smart metering infrastructure can be used to modernize the electricity system in Alberta. The study report is expected to be issued by the AUC no later than the end of January 2011.

Performance Measure under Development:

At publication of the 2009-12 Energy Business Plan, this performance measure was under development by the Department. Subsequently, a new performance measure has been developed for the 2010-13 Energy Business Plan. The new measure gauges the percentage of fuel gas used by industry participants who voluntarily reported fuel gas efficiency information.

GOAL 7 **Linked to Core Business 3 – Leading and supporting the development of energy related infrastructure, innovation, markets and regulatory systems**

Energy related infrastructure is built and sustained to support the Government of Alberta's objectives

Future economic prosperity will require energy infrastructure. Alberta's electricity system requires a robust, reliable and efficient transmission system to meet increasing demand. Natural gas and oil pipelines will be needed to access new markets and infrastructure will be needed to support carbon capture and storage. The Ministry will work with other ministries to encourage development of energy infrastructure and broader social/community infrastructure such as highways, railroads, hospitals and schools, particularly in support of energy development.

Key Achievements

An essential element for ensuring Alberta's long term energy competitiveness is having adequate and competitive energy infrastructure that facilitates the transmission of Alberta's energy products to key North American markets. Among Alberta's vital energy infrastructure is the Alberta "Hub", which includes 412,555 kilometres of oil, gas and other energy-related pipelines. Alberta's electricity transmission system is an important facilitator of prosperity, providing reliable power to Alberta industries, businesses and residential consumers.

Enhancing key transmission systems

- The *Electric Statutes Amendment Act, 2009* came into force in December 2009. The legislation ensures that new critical transmission infrastructure will be developed to ensure that Alberta will continue to receive safe, reliable and open-access transmission service. This will help facilitate investment and economic development and will help maintain and enhance Alberta's standard of living.

Encouraging clean and alternative electrical power development

- Directed the Alberta Utilities Commission to inquire into the regulatory approval process for hydro power developments in Alberta with the objective of improving the process.
- Encouraged the installation of 122 new micro-generation sites in the 2009 calendar year, representing capacity of 443 KW. Alberta's micro-generation regulation, which was introduced in January 2009, enables small-scale, clean, electricity generation systems to come on line.
- Adopted a policy to consider nuclear development proposals on a case-by-case basis in December 2009. Alberta will ensure that any application for nuclear development in the province is subject to a thorough and transparent regulatory review. This approach reflects the views expressed by Albertans through a comprehensive provincial consultation.

Performance Measure:

At publication of the 2009-12 Energy Business Plan, this performance measure was under development by the Department. Subsequently, two new performance measures have been developed for the 2010-13 Energy Business Plan. The first measure details the magnitude of Transmission Must Run (TMR) congestion (GWh), the magnitude of Constrained Down Generation (GWh), and transmission losses (%). The second measure shows the number of microgeneration sites and installed microgeneration capacity.

GOAL 8 **Linked to Core Business 3 – Leading and supporting the development of energy related infrastructure, innovation, markets and regulatory systems**

Ensure effective innovation policies and programs to achieve technology and processing improvements in the development of energy and mineral resources

Realizing our energy vision will depend on our concerted efforts to address the full curve of technology development, from conception to commercial deployment. This will include the development of new technologies or the enhanced deployment of already proven technologies. For example, technologies will help us realize large scale capture and use of carbon, reduce the use of natural gas and water, increase recovery, reduce costs, reduce emissions, and develop Alberta's renewable energy sources. The Ministry will work with Advanced Education and Technology and other stakeholders to develop an integrated, coordinated approach which supports and encourages energy research by industry, government, universities and research organizations.

Key Achievements

Alberta Energy continued to support research and innovation in Alberta's energy sector. Through the development and deployment of new and improved technologies, Albertans can realize the full benefits of their energy resources. This includes optimizing recovery from Alberta's mature conventional oil resources, which remain substantial, and tapping into the province's vast unconventional gas resources, that can bring new jobs, income and opportunities to Albertans. The Ministry pursued policy opportunities and programs to support these goals, including the following:

Optimizing recovery

- Guided the Coalbed Methane Multi-Stakeholder Advisory Committee II, which released its third and final annual progress update report in December 2009. The report showed that the Alberta government had completed extensive work to ensure the continued responsible development of coalbed methane in the province. Alberta's coalbed methane resources are estimated to contain up to 500 trillion cubic feet of natural gas.
- Commenced work with cross-ministry partners and industry stakeholders on a Mature Oilfield Review to investigate conventional oil development in Alberta and to identify policy directions and needs for mature oilfield development. Agreement was reached to undertake a review of the Enhanced Oil Recovery Royalty Relief Program in 2010-11. Only 27 per cent of light oil and 15 per cent of heavy oil is recovered in Alberta, suggesting there remains abundant conventional oil resources waiting to be developed. Enhanced oil recovery methods and other technologies can contribute to unlocking these resources and realizing greater value for Albertans.

Promoting innovation in energy development

- The Department continued its involvement in the development of a new innovation framework in Alberta. This includes the establishment of the four new Alberta Innovates corporations. Those of specific interest to the Department are Alberta Innovates – Energy and Environment Solutions, and Alberta Innovates – Technology Futures.
- Expanded the Innovative Energy Technologies Program (IETP), which provides $200 million over five years to support pilot and demonstration projects that use innovative technologies to increase recoveries from Alberta's gas and oil resources. During 2009-10 the IETP was expanded to include oil sands mining projects. At the end of the fiscal year, 30 projects had been approved for funding and identified publicly. Numerous other projects were also in the process of having approvals finalized; once approvals are finalized, the projects will be identified in the public domain.

Performance Measure:

At publication of the 2009-12 Energy Business Plan, this performance measure was under development by the Department. Subsequently, the new performance measure remains under development for the 2010-13 Energy Business Plan.

Alberta has a competitive and efficient energy system ensuring Albertans' electricity and natural gas needs are met

The Ministry establishes policy and market design for electricity wholesale and retail markets as well as retail market design for natural gas to assure an efficient, competitive marketplace that maintains reliable energy supplies and competitive prices to Alberta consumers. The Ministry is responsible for monitoring and oversight to ensure effective market operation.

Key Achievements

Alberta Energy led and pursued a number of initiatives to help ensure Alberta's electricity and natural gas markets remained efficient and competitive. This contributed to a positive climate for business and industry, and supported Alberta's goal of being one of the most attractive places in North America to invest in energy development.

- The *Electric Statutes Amendment Act, 2009* came into force in December 2009. The Act gives the Government of Alberta authority and responsibility for approving the need for major transmission lines identified as critical by the Alberta Electric System Operator. Adequate and reliable transmission is necessary for the efficient functioning of Alberta's competitive electricity market and for meeting the needs of Alberta's growing economy and population.
- Commenced publishing the switching statistics for the competitive retail electricity and natural gas market on the Alberta Energy website. The Ministry also researched, gathered and published metrics as a part of a Retail Market Review that started in 2009-10. The Department gathers and publishes statistics regarding the additions of new generation capacity in the Alberta electricity market, the outlook for future additions, and data on prices and total electricity demand in the wholesale market.
- Worked with the federal government and other provincial and territorial governments to contribute to the work of the Provincial Territorial Electricity Working Group, involving other Canadian, American and Mexican government organizations. The working group monitors development and implementation of mandatory reliability standards for the North American transmission grid.
- Implemented two initiatives to increase regulatory efficiency without reducing government oversight and to reduce the cost of doing business in the Electricity and Gas Markets in Alberta. Information on harmonizing the Regulated Rate Option Regulation and Default Gas Supply Regulation was gathered, and Alberta Energy began the process of amending the Code of Conduct Regulation so the Alberta Utilities Commission would have the oversight to approve and audit the code of conduct compliance plans for both markets.
- Supported work on developing a smarter electrical grid for Alberta. The Alberta Utilities Commission was directed to gather information on smart grid technology, which will be used toward policy development in Alberta. A report was also completed on advanced metering infrastructure system architecture for Alberta, which is a key element in developing a smart grid.

Performance Measure:
9.a Power Generation

Target:
Maintain a minimum seven per cent margin over peak demand.

Results:

	Year Ending December 31		
	Actual 2007	Actual 2008	Last Actual 2009
Power Generation: Margin (MW) between Firm Generating Capacity[1] and Peak Demand	17%[2]	20%[2]	18%

Sources: Energy Resources Conservation Board (ERCB), Alberta Electric System Operator (AESO) and Alberta Department of Energy.

Notes:

Through industry investment, Alberta's net supply margin of electricity will be sufficient to ensure reliable power supply.

[1] The 2009-12 Business Plan details this performance measure as the 'Margin (MW) between supply and peak demand.' Due to a methodology improvement, the Ministry will be reporting Firm Generating Capacity instead of supply for this Annual Report and beyond. Firm Generating Capacity provides a more accurate margin, as it excludes:

- wind power, which is not dispatchable on a consistent basis;
- small hydro, which has minimal storage capability for operation during winter, when peak demand occurs;
- 25 per cent of large hydro, to reflect limitations on its output during winter, when peak demand occurs; and
- tie line capacity, which is not dispatchable on a consistent basis.

[2] Data has been revised from results reported in the 2008-09 Annual Report due to the above change in methodology (see "Performance Measures Methodology" section in Appendix A).

Discussion of Results

Alberta's economic prosperity and high standard of living relies on access to reliable and plentiful electricity. The Government of Alberta has created a framework that maintains a fair, efficient and openly competitive wholesale power market. This framework has resulted, over the long term, in electricity supply keeping pace with Alberta's growing demand for power.

For this measure, the seven per cent margin is a specific identifiable reliability requirement set by the Western Electricity Coordinating Council (WECC), the regional entity responsible for coordinating electric system reliability in the Western Interconnection that extends from Canada to Mexico.

For 2009, the margin between the firm electricity generating capacity and peak demand has decreased to 18 percent from the 2008 level of 20 percent. This highlights that Alberta's market framework has successfully performed above the operating safety margin, resulting in robust competition in the wholesale market to the benefit of all consumers. It is important to keep in mind that annual variations in the margin are normal due to the change in peak demand and timing of net generation additions.

Firm electricity generating capacity has been calculated at 12,112 megawatts (MW) for 2009. This is up 377 MW from 2008. Peak demand in 2009 was 10,236 MW, which was an increase of 430 MW from 2008. The peak demand experienced in 2009 was the highest demand level Alberta has had to date.

GOAL 10 **Linked to Core Business 3 – Leading and supporting the development of energy related infrastructure, innovation, markets and regulatory systems**

Regulation of energy and utility development in Alberta is fair, responsible and in the public interest

The Government of Alberta has established, in legislation and policy, a regulatory framework intended to ensure that the discovery, development and delivery of Alberta's energy resources and the development of Alberta's utility system take place in a manner that is fair, responsible and in the public interest. The oversight of this framework rests with the government, particularly the Minister of Energy, who is responsible for the related legislation. The Energy Resources Conservation Board (ERCB) and the Alberta Utilities Commission (AUC) are responsible for implementing their respective regulatory process within this framework. While these agencies report administratively to the Minister of Energy, their formal regulatory decisions are made independently, in accordance with the governing legislation and regulations.

The ERCB regulates the discovery, development and delivery of energy resources in Alberta. It establishes and applies technical standards for the safe and reliable operation of energy facilities while having regard for social, economic and environmental effects, including resource conservation. The ERCB conducts inspections to ensure compliance with the regulations it administers.

The AUC makes timely decisions on regulated utility rates and electricity and natural gas transmission and distribution facilities, which are needed to attract investment, meet future needs and ensure fair pricing. The AUC has rule-making responsibility relating to data communications transactions and the delivery of these transactions to market participants to ensure a well-functioning electricity and natural gas market.

Key Achievements

Energizing Investment identified the need to improve the efficiency and effectiveness of Alberta's regulatory system for resource development, as a key element in enhancing the province's investment competitiveness in energy development.

To bring about these improvements, Alberta Energy led the Government of Alberta's Regulatory Enhancement Project (REP), which will continue through next fiscal year. The REP is undertaking a comprehensive review of Alberta's regulatory system, and working to identify how Alberta's policy assurance and regulatory system should best be structured so that it is modern, flexible, efficient and effective. The REP involves collaborative work with Alberta Environment, Alberta Sustainable Resource Development and the Energy Resources Conservation Board.

As foundation for this longer-term work, a number of opportunities were pursued to make near-term enhancements to Alberta's regulatory system. These near-term enhancements will reduce project delays, eliminate duplicative red tape and reduce associated costs. This will provide greater clarity to Albertans and industry about how Alberta's energy resources are to be developed, including strict expectations for limiting impacts on Alberta's environment. These changes will also provide millions of dollars in savings to industry, thereby enhancing Alberta's competitive position as a preferred destination for energy investment.

Key achievements included the following:

Improving the regulatory system

- Worked with the British Columbia Oil and Gas Commission, the Canadian Association of Petroleum Producers, and BC Revenue to harmonize liquid gas ratio testing requirements in Alberta and British Columbia. These changes will save gas producers in the two provinces between $60 million and $150 million annually, with the majority of the savings realized by Alberta producers.
- Clarified and simplified coalbed methane control-well requirements, which will save gas producers approximately $18 million annually; and lifted requirements on coalbed methane annual pressure testing while a review is completed on the quality and utility of this data, relative to the costs of its collection.
- Consolidated regulatory publications to eliminate obsolete requirements where appropriate, and reduce the level of "red tape" industry and stakeholders must work through. Since 2004, the ERCB has reduced the number of regulatory publications from 205 to 164, while an additional ten publications are in the process of being eliminated.
- Harmonized well spacing within Development Entities No. 1 and 2. This eliminates time and costs associated with an estimated 250 applications per year related to obtaining approval to increase well density in key unconventional gas areas of Alberta.
- Launched the Unconventional Gas Regulatory Framework Project, which will lead to a new regulatory framework for unconventional gas by January 2011. The results of this project will be the implementation of a modern, effective and efficient regulatory environment for industry to operate in when developing Alberta's abundant unconventional gas resources.
- Eliminated landowner notification requirements for well spacing across Alberta. This action reduces a source of misunderstanding and regulatory turnaround as spacing relates only to technical reservoir parameters and does not relate to approval of surface facilities. A determination of appropriate well spacing (well density) from a resource recovery standpoint does not confer any regulatory decision with respect to future applications for surface facilities (wells, pipelines, etcetera).
- Implemented a coordinated approach between the ERCB and Alberta Environment to decommission the Balzac Gas Plant by August 31, 2011. This approach will reduce the number of plant visits, enable inter-agency sharing of knowledge and expertise, and result in a more timely decommissioning.
- Received plans with dates for the construction, use, and closure of fluid tailings ponds from six Alberta oil sands operators as required by Directive 074: Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes.

Enhancing application processes in the electricity sector

- The AUC introduced a set of full-cycle application process timelines for various categories of facility applications, as required to meet legislated timelines for issuing decisions for certain types of applications. Internal performance standards were publicized to provide consistent and predictable timelines for the entire full-cycle process, from the time an application is filed to the decision being issued. The AUC also implemented a more extensive public notification of needs applications and conducted public information sessions for all major facility applications.
- Announced an enhanced public hearing process and implemented the Heartland Transmission Project to maximize preparation time for interveners. This included a streamlined standing process for participants, an opportunity to pre-register the intention to participate, and an option for interveners to choose from three levels of participation.

Performance Measure:
10.a Protection of Public Safety

Target:
Less than 3.5 per cent of field inspections finding High Risk regulatory noncompliance.

Results:

	Actual 2007	Actual 2008	Year Ending December 31 Last Actual 2009
Protection of Public Safety: Percentage of field inspections finding High Risk regulatory noncompliance	2.5%	2.1%	1.7 %

Source:
Field Surveillance Inspection System database and Energy Resources Conservation Board Waste Plant Spreadsheet, March 2010.

Discussion of Results
In calendar year 2009, there were 21,691 initial inspections. Of these inspections, 378 found High Risk noncompliances, 149 relating to pipelines.

Although the number of inspections increased from 18,315 in 2008 to 21,691 in 2009, there was a slight decrease in noncompliance with regulatory requirements from last year. The ERCB has increased its resources to the frontline field operations over the last three years enabling the ERCB to focus on continuing to educate industry through presentations and operator awareness sessions to ensure that industry operations staff better understand the regulatory requirements. In addition, heightened accountability by industry continues as a result of the monthly publication of *ST108: ERCB Monthly Enforcement Action Summary* on the ERCB website of High Risk enforcement actions.

Performance Measure:
10.b Timeliness of the Needs and Facility Applications

Target:
100 per cent of needs and facility applications determined within 180 days of the application being deemed complete.

Results:

	Actual 2007	Actual 2008	Year Ending December 31 Last Actual 2009
Timeliness of the Needs and Facility Applications – Percentage of needs and facility applications determined within 180 days of the application being deemed complete	N/A	100%	97.8%

Source: Alberta Utilities Commission

Discussion of Results
Of a total of 89 facility decisions issued, two decisions were issued outside of the 180 day timeline. The AUC applies additional internal performance measures to a full-cycle process timeline, depending on the category of application.

Build an organizational environment for success

The Ministry recognizes the challenge and importance of maintaining and building organizational capacity to respond to changing business needs. Organizational capacity means having the right resources, people, finances, information, technology, processes and tools to deliver the Ministry's mission.

Key Achievements

The energy business is complex and knowledge intensive, requiring specialized expertise and skills. It is through the hard work of the skilled and dedicated professionals at Alberta Energy that the achievements of this past year have been realized. Although the Ministry continued to face strong competition from the energy industry for skilled employees, it continued to succeed in building the organizational capacity required to support Alberta's energy objectives.

Named as one of the Best Employers for New Canadians for 2010 by the editors of Canada's Top 100 Employers, the ERCB proudly received this designation that recognizes the nation's 35 best employers for recent immigrants. Recognized employers offer innovative programs to help new Canadians make the transition to a new workplace and a new life in Canada. The ERCB was cited specifically for reimbursing new Canadian employees for the cost of APEGGA membership fees, covering English language training, and subsidizing the cost of upgrading or bridging courses at outside learning institutions.

- Conducted a variety of activities as part of the Alberta Public Service Workforce Plan regarding succession planning and knowledge management and transfer. These included a Department-wide risk audit of all positions; interviews with staff regarding succession issues; a demographic analysis of all employee groupings; increased recruitment of targeted and at-risk groups; the piloting of a revised orientation and onboarding program; the establishment of a joint interdepartmental mentorship pilot program; and the support of staff development and training through educational programs.
- Signed a Memorandum of Understanding with Saskatchewan to join the Petroleum Registry of Alberta (PRA). Effectively the arrangement means Saskatchewan and Alberta will share the Registry's best-in-class functionality and services, without sharing the data collected, which is proprietary to each province. This unique inter-provincial arrangement provides significant benefits to Alberta, Saskatchewan and industry by standardizing and streamlining business processes, enhancing data quality and access to information, and sharing costs between stakeholders. Saskatchewan's reporting through the Registry will be implemented in late 2011.

Performance Measure:

11.a Industry satisfaction

Target:

Industry satisfaction 80 per cent or higher.

Results:

	Actual 2005	Actual 2007	Year Ending December 31 Last Actual 2009
Industry satisfaction			
• with Department services	84%	83%	82%
• with Department electronic information management	90%	90%	90%

Source: Banister Research and Consulting

Discussion of Results

High levels of satisfaction with Department services and electronic information management, demonstrated by the last three biennial surveys, indicate that the Department has been consistently meeting stakeholder expectations. The results for 2009 were virtually unchanged from 2007 and 2005.

The most recent survey, for the calendar year 2009, was conducted in October and November 2009. The survey results for 2009 were similar to the results achieved for the years 2005 and 2007, and reflected high levels of stakeholder satisfaction with Department services. A satisfaction rate of 82 per cent was achieved in 2009, down one per cent from the 2007 survey results. The helpfulness and professionalism of Department staff was rated at 85 per cent, contributing to an overall high result. Results are considered accurate +/- 4.3 per cent 19 times out of 20.

The Department applied the Government of Alberta's framework for service excellence, focusing on courteous, competent and timely service to clients. Industry satisfaction was surveyed to ensure that Department services kept pace with changing requirements in the energy sector and identified opportunities for improvements. Industry satisfaction is an indicator of staff competence, knowledge, satisfaction and service.

In an increasingly global business environment where partnerships and information sharing are keys to success, effective use of information technology to deliver business products/services and manage information is essential. Industry satisfaction with electronic information management is surveyed to assess the Department's commitment to system availability and security, timeliness and ease of use. Results for industry satisfaction with electronic information management in 2009, the last year the survey was conducted, are considered accurate +/- 3.4 per cent 19 times out of 20. The 90 per cent satisfaction rate was identical to what was achieved in 2007.

Performance Measure:

11.b Work Environment

Target:

Achievement of satisfaction targets for Employee Engagement and Quality Work Environment.

Results:

	Year Ending December 31		
	Actual 2007	Actual 2008	Last Actual 2009
Work Environment:			
Department:			
• Employee Engagement	74%	76%	75%
• Quality Work Environment	77%	77%	75%
ERCB:			
• Employee Engagement	N/A	81%	80%
• Quality Work Environment	N/A	80%	79%
AUC:			
• Employee Engagement	N/A	88%	81%
• Quality Work Environment	N/A	86%	81%

Source: Resinnova

Discussion of Results

In an increasingly global business environment, having the right employees in the right jobs and having these employees feel empowered are key to the success of the organization as a whole. To measure this progress, the Quality Work Environment and Employee Engagement indices serve as indicators of staff morale, knowledge and satisfaction, which are gauged through a formal survey of all employees in the Department of Energy, ERCB and AUC.

Each organization has an ongoing and direct influence in creating and maintaining an environment where employees feel engaged and enjoy a positive and values-based work environment. The organizations monitor the work environment to identify opportunities for improvement, and to address changing requirements for its employees. The most recent survey for the Department, ERCB and AUC for calendar year 2009 was conducted in the Fall (October and November) of 2009.

Employees were interviewed and asked a series of questions. Of these questions, a total of six are used for Employee Engagement and 11 are used for Quality Work Environment.

Department

Survey results were similar to those achieved in 2008 and although they fell short of the target of 80 per cent, they reflect a fairly positive level of satisfaction amongst the 588 (or 88 per cent) surveyed employees, with Quality Work Environment and level of Employee Engagement. The results for the Department are also considerably higher than the government as a whole.

ERCB

The ERCB results were similar to those achieved in 2008 and exceeded both targets, reflecting a positive level of satisfaction amongst employees in terms of Quality Work Environment and level of Employee Engagement. A total of 915 (or 93 per cent) employees from the ERCB were interviewed.

AUC

A total of 87 per cent of all AUC employees participated in the 2009 Employee Survey.

Though the survey results for both the Employee Engagement and Quality Work Environment indexes were slightly lower in 2009 compared to 2008, the current (2009) results exceeded established targets and are a true reflection of the positive level of satisfaction amongst staff. The AUC recognizes that the delivery of its core business depends in large part on the expertise and commitment of its people.

Appendix A: Performance Measure Methodologies

Performance Measure

2.a Revenue collection: defaults on resource payments owed to the Government of Alberta

Methodology

Information for this performance measure is collected from IMAGIS, a system used by the Ministry to record financial transactions. The defaults on resource payments are represented by the amount of accounts receivable that were written-off during the year.

Performance Measure

2.b Audit adjustments to industry filing and reporting

Methodology

The Department audits industry filings and reporting information used to calculate non-renewable resource revenues to ensure that it is complete and accurate.

This measure tracks the absolute value of adjustments arising from those audits. As such, it excludes any adjustments made by industry. This measure also excludes any adjustments arising from audits performed by the Energy Resources Conservation Board. The measure expresses the three-year moving average of the annual total absolute dollar value of audit adjustments as a percentage of the reported resource revenues for that three-year period.

The absolute value of audit adjustments is the sum of all adjustments; that is the total of the errors in the Crown's favour and errors in industry's favour and as such is an indicator of the total error rate. Audit adjustments are based on audits completed or processed in the Department's 2009-10 fiscal year and the two preceding fiscal years. Total adjustments include errors relating to the 2009-10 year filings, and errors to prior years' filings (based on the 2009-10 year audit, subject to statutory limitations of the *Mines and Minerals Act, the Freehold Mineral Rights Tax Act* and the *Natural Gas Marketing Act*). Where applicable, it also includes the estimated future impact of amendments. For the fiscal year ending March 31, 2010, this could include adjustments made to industry filings submitted from 2003 to 2009. Audit results have not been extrapolated over the entire population.

This measure includes audit adjustments assessed for conventional crude oil, natural gas and byproducts, oil sands, coal and Freehold Mineral Tax revenues. The result is a measure of industry's understanding of, and compliance with, the Department's reporting requirements. It should be noted that the value of Crown royalty is influenced by commodity prices and production that are beyond the control of the Department. Resource revenues used in the above calculation are based on the fiscal year revenues as reported in the Ministry Annual Report.

Performance Measure
3.a Carbon Capture and Storage

Methodology
Injected volumes of carbon dioxide will be reported to Alberta Energy to satisfy the terms of the grant agreements. Currently the terms of these grant agreements are being negotiated and therefore the specifics of this methodology are unknown.

Carbon dioxide injection data is also available through Alberta Environment. Together with the Energy Resources and Conservation Board (ERCB), these sources will be used to confirm the quantities being reported.

Performance Measure
3.b Upstream Oil and Gas Industry Investment

Methodology
Private and Public Investment (PPI) data is used as a source for the capital expenditure data in the Upstream Oil and Gas Industry Investment performance measure. The use of the PPI as a source offers the Department the advantage of having data taken directly from a comprehensive national publication, which reports investment for all sectors and industries in Canada, for which data is available. This allows the Department to make methodologically consistent comparisons between investment in Alberta's upstream oil and gas industry, and other industries.

Annual industry investment in the upstream oil and gas industry was targeted to be in the $23 to $30 billion range. The target is calculated as a range between a five-year average investment and a ten-year average investment; both averages include the last actual result. The average investment from 2003 to 2007 was $30.3 billion; the average investment from 1998 to 2007 was $22.6 billion. Therefore, the target in the 2009-12 Business Plan was $23-$30 billion. This target will change every year following the release of the most recent last actual result

Performance Measure
4.a Ethane Demand in Alberta

Methodology
The demand for ethane is derived from the Industrial Development Permits (IDPs) from ethylene plants that must, on an annual basis, report the consumption of ethane as a feedstock to the ERCB. This source is used to determine the demand of ethane for the province of Alberta.

The Incremental Ethane Extraction Program (IEEP) is a ten-year program that started in 2007. It is slated to end on December 31, 2016.

- Projects are allowed to apply to be tagged as incremental ethane sources until December 31, 2011 (or the first five years of the program).
- Projects that are deemed to be incremental sources of ethane are eligible to receive fractionation credits for five years (up until the end date for the program of December 31, 2016).

The goal of IEEP is to increase the production of ethane in the province above the forecasted Ethane Consumption Baseline (ECB). The ECB was developed by a consultant group (Purvin and Gertz) based on their best estimates of both production of and demand for ethane. IEEP hopes to encourage private investment to increase the production of ethane by 60-85,000 barrels per day above the forecasted ECB by the end of program. The increase is expected to maintain the production of ethane in the province at a relatively stable level (i.e. the expected drop in production without extra investment will approximately equal this increase in production).

Performance Measure

4.b Ethanol Production in Alberta

Methodology

Production capacity results are based on information published by Permolex International, L.P.

Actual production is reported to the Department of Energy on monthly invoices filed by companies under the Bioenergy Producer Credit Program (BPCP) in order to validate the amount of credit claimed for bioenergy production. Production data for ethanol facilities that apply and qualify under the BPCP will continue to be collected until the program ends in March 2016. This data includes production for both Alberta and export markets.

Performance Measure

4.c Biodiesel Production in Alberta

Methodology

In order to monitor the growth in biodiesel production capacity in Alberta, the Department developed a new performance measure, which first appeared in the 2008-11 Business Plan. At the time, there was no biodiesel production in Alberta, so targets were based on a conservative projection on projects which received bioenergy grant funding.

Actual production is reported to the Department of Energy on monthly invoices filed by companies under the Bioenergy Producer Credit Program (BPCP) in order to validate the amount of credit claimed under the program for bioenergy production. Production data for Western Biodiesel, and any new biodiesel facilities which qualify under the BPCP, will continue to be collected until the program ends in March 2016. This data includes production for both Alberta and export markets.

Performance Measure

9.a Power Generation

Methodology

The intent of the measure is to demonstrate that there is sufficient margin between firm electricity generating capacity and peak demand. The margin for the measure is reported as the percentage MW difference between firm generating capacity and peak demand. For this performance measure, all wind and a portion of the hydro capacity, which are not dispatchable on a consistent basis, have been removed from the total installed generating capacity. Peak demand is defined as the highest recorded system demand (in megawatt-hours) in a climatic year (October 1 through to March 31) as recorded by the Alberta Electric System Operator.

Methodology for calculating the margin was adjusted for the 2009-10 Annual Report. Previously, the margin was reported as the difference between total installed generating capacity (net of wind capacity) and peak demand. As a further refinement to the method, a portion of the hydro capacity has also been excluded from the calculation of the firm generating capacity. From an operational point of view, some portion of the hydro capacity may not be available at all times, especially when the peak demand occurs in the winter, due to the limited water storage capacity in the reservoirs. This aspect of the hydro units may put limitations on the amount of generation that can be dispatched from these units on a consistent basis. This adjustment helps further refine the calculation of the margin and makes it more representative of the situations where the full hydro capacity may not be available. This adjustment is applied retroactively to the margins for all the years shown in the 2009-10 Annual Report (2007, 2008, and 2009).

Performance Measure

10.a Protection of Public Safety

Methodology

This indicator measures industry's compliance with regulatory requirements.

The Field Operations staff inspects operations of the upstream oil and gas industry with respect to the drilling, production, and disposition of hydrocarbons and associated wastes. All inspection results are recorded as Satisfactory, Low Risk noncompliant, or High Risk noncompliant and are entered into the Field Surveillance Inspection System database, with the exception of inspections of waste plants. These are tracked manually because the waste plants do not have licence numbers. Inspections and investigations are counted for the year that the event was initiated. This information is then reported in the annual *ST57: Field Surveillance and Operations Branch Provincial Summary*, which reports on a calendar-year basis. Field inspections for this measure are initial inspections for drilling, gas facility, oil facility, pipeline, well service, drilling waste, well sites, and waste management operations completed in the calendar year.

A High Risk noncompliance is when a contravention of regulation(s)/requirement(s) is found that the licensee has failed to address and/or that has the potential to cause a significant impact on the public and/or environment.

Performance Measure

10.b Timeliness of the Needs and Facility Applications

Methodology

The statutory deadline for issuing decision reports is 180 days, with possible 90-day extensions under certain circumstances. These statutory timelines begin on the date when the AUC deems the application complete. The status of applications is tracked daily.

Performance Measure

11.a Industry Satisfaction

Methodology

In October and November 2009, Banister Research and Consulting Inc. conducted telephone interviews with client groups that do business with the Department of Energy.

For industry satisfaction with Department services the focus of courteous, competent and timely service to clients was used to develop questions given to 350 randomly selected industry clients. Results are a mean average of client responses to a single question on overall satisfaction with nine business units.

In order to gauge satisfaction with electronic information management, 656 randomly selected industry companies were asked questions about availability, security, timeliness and ease of use of Department electronic data processing systems. Results are a mean average of client responses to these questions.

Performance Measure

11.b Work Environment

Methodology

Surveying for the measure is conducted each year. The most recent survey, for calendar year 2009, was conducted in October and November of 2009. An independent third party, Resinnova, is engaged to conduct the annual employee survey. Individual responses to the survey questions remain anonymous and only aggregate results are delivered to each government organization.

A total of 915 (or 93 per cent) employees from the ERCB were surveyed, as well as 588 (or 88 per cent) employees from the Department of Energy, and 114 (87 per cent) from the AUC. Initial surveys were conducted through an on-line interview. If employees did not respond between October 26 and November 20, a telephone interview was conducted. Out of these questions, the results of six were used for Employee Engagement and 11 were used for Quality Work Environment. The same questions for Employee Engagement and Quality Work Environment are being used each year to ensure validity and consistency. Both management and non-management employees are surveyed.

MINISTRY OF ENERGY

FINANCIAL STATEMENTS
For the year ended March 31, 2010

Auditor's Report

Consolidated Statements of Operations

Consolidated Statements of Financial Position

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

Schedules to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Members of the Legislative Assembly

I have audited the consolidated statements of financial position of the Ministry of Energy as at March 31, 2010 and 2009 and the consolidated statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Ministry's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
June 8, 2010

MINISTRY OF ENERGY
CONSOLIDATED STATEMENTS OF OPERATIONS
Year ended March 31

(in thousands)

	2010		2009
	Estimates (Schedule 3)	Actual	Actual
Revenues (Schedule 1)			
Non-Renewable Resource Revenue	$ 5,903,000	$ 6,767,941	$ 11,915,296
Freehold Mineral Rights Tax	200,000	124,466	260,913
Industry Levies and Licences	145,743	142,226	140,567
Other Revenue	12,959	45,833	42,636
	6,261,702	7,080,466	12,359,412
Expenses - Directly Incurred (Note 2 and Schedules 2 and 3)			
Ministry Support Services	2,195	2,010	2,053
Resource Development and Management	279,146	176,214	174,228
Energy and Utilities Regulation	219,995	209,737	218,519
	501,336	387,961	394,800
Net Operating Results	$ 5,760,366	$ 6,692,505	$ 11,964,612

The accompanying notes and schedules are part of these consolidated financial statements.

MINISTRY OF ENERGY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at March 31

	(in thousands) 2010	2009
Assets		
Cash (Notes 3 and 7)	$ 532,113	$ 528,966
Accounts Receivable (Note 4)	1,292,459	582,991
Inventory Held for Resale	16,595	-
Prepaid Expenses	6,474	3,031
Accrued Pension Asset (Note 8)	8,298	8,272
Tangible Capital Assets (Note 5)	87,860	83,427
	$ 1,943,799	$ 1,206,687
Liabilities		
Accounts Payable and Accrued Liabilities	$ 643,719	$ 231,667
Gas Royalty Deposits (Note 6)	1,040,553	1,040,214
Unearned Revenue	71,414	71,652
Security Deposits (Note 7)	38,557	35,941
Tenant Incentives	428	1,070
	1,794,671	1,380,544
Net Assets (Liabilities):		
Net (Liabilities) Assets at Beginning of Year	(173,857)	1,536,650
Net Operating Results	6,692,505	11,964,612
Net Financing Provided for General Revenues	(6,369,520)	(13,675,119)
Net Assets (Liabilities) at End of Year	149,128	(173,857)
	$ 1,943,799	$ 1,206,687

The accompanying notes and schedules are part of these consolidated financial statements.

MINISTRY OF ENERGY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended March 31

	(in thousands) 2010	2009
Operating Transactions		
Net Operating Results	$ 6,692,505	$ 11,964,612
Non-cash items included in Net Operating Results		
Amortization	21,520	20,692
Loss on Disposal of Tangible Capital Assets	500	7
Valuation Adjustments	784	785
	6,715,309	11,986,096
(Increase) Decrease in Accounts Receivable	(709,468)	1,517,931
(Increase) Decrease in Inventory	(16,595)	14,081
Increase in Prepaid Expenses and Accrued Pension Asset	(3,469)	(1,024)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	411,268	(142,246)
(Decrease) Increase in Unearned Revenue	(238)	262
Decrease in Tenant Incentives	(642)	(725)
Cash Provided by Operating Transactions	6,396,165	13,374,375
Capital Transactions		
Acquisition of Tangible Capital Assets	(26,491)	(28,214)
Proceeds on Disposal/Sale of Tangible Capital Assets	38	-
Cash Applied to Capital Transactions	(26,453)	(28,214)
Financing Transactions		
Net Financing Provided for General Revenues	(6,369,520)	(13,675,119)
Increase in Gas Royalty Deposits	339	54,090
Increase in Security Deposits	2,616	4,717
Cash Applied to Financing Transactions	(6,366,565)	(13,616,312)
Increase (Decrease) in Cash	3,147	(270,151)
Cash at Beginning of Year	528,966	799,117
Cash at End of Year	$ 532,113	$ 528,966

The accompanying notes and schedules are part of these consolidated financial statements.

Note 1 Authority

The Minister of Energy has been designated as responsible for various Acts by the *Government Organization Act* and its regulations. To fulfill these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Energy.

Organization	Authority
Department of Energy (The Department)	*Government Organization Act*
Energy Resources Conservation Board (The ERCB)	*Energy Resources Conservation Act*
Alberta Utilities Commission (The AUC)	*Alberta Utilities Commission Act*
Alberta Petroleum Marketing Commission (The Commission)	*Petroleum Marketing Act and the Natural Gas Marketing Act*

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB financial statements presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the Ministry.

Basis of Financial Reporting

Basis of Consolidation

The accounts of the Department, the ERCB, the AUC, and the Commission are consolidated. Revenue and expense transactions, capital and financing transactions, and related asset and liability accounts between entities within the Ministry have been eliminated.

The reporting period of the Commission is December 31. Transactions that have occurred during the period January 1 to March 31 and that significantly affect the consolidation have been recorded.

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services which have not been provided by year end is recorded as unearned revenue. The provincial royalty system is predicated on self-reporting where the petroleum and natural gas industry is expected to understand the relevant energy legislation (statutes and regulations) and comply with them. This has an impact on the completeness of revenue when the petroleum and natural gas industry do not fully meet the legislative requirements and, for example, report inaccurate or incomplete production data. The Ministry has implemented systems and controls to detect and correct situations where the petroleum and natural gas industry has not complied with the various Acts and Regulations the Ministry administers. These systems and controls, based on areas of highest risk, include performing audits of the petroleum and natural gas industry records where determined necessary by the Ministry. The Ministry does not estimate the effect of misreported revenue.

Crude oil and natural gas royalties are determined based on monthly production. Revenue is recognized when the resource is produced by the mineral rights holders.

Synthetic crude oil and bitumen royalties are determined based on revenues from production sold by projects less the costs of that production and the costs of selling the Crown's royalty share. Royalty revenue is recognized when the resource is produced by the mineral rights holders.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Basis of Financial Reporting (continued)

Revenues (continued)

Freehold mineral taxes are determined at the end of a calendar year based on production and costs of production incurred in the calendar year. Revenue is recognized on a prorated basis, by month, of the estimated calendar year taxes and royalty that will be due to the Crown.

Revenue from bonuses and sales of Crown leases is recognized when the Crown leases are sold. Rentals and fees revenue is recognized over the term of the leases.

Industry levies and assessments are recognized as revenue in the year receivable.

Expenses

Directly Incurred

Directly incurred expenses are those costs the Ministry has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.

- pension costs which comprise the cost of employer contributions during the year.

- current service costs for the defined benefit pension plans. The ERCB and the AUC have their own defined benefit pension plans. The ERCB's and the AUC's pension expense is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement. Net accumulated actuarial gain or loss is deferred and amortized over the average remaining service period of the active employees, which is 8 years. For the purpose of calculating the expected return, plan assets are valued at fair value. Past service costs arising from plan amendments are deferred and amortized on a straight line basis over the average remaining service period of active employees at the date of amendment.

- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Grants are recognized as expenses when authorized and eligibility criteria, if any, are met.

Incurred by Others

Services contributed by other entities in support of the Ministry operations are disclosed in Schedule 3 and are not reflected in the consolidated statements of operations.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Basis of Financial Reporting (continued)

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the Ministry are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250 and the threshold for major systems enhancements is $100. The threshold for all other tangible capital assets is $5.

Inventory consists of conventional and synthetic oil in feeder and trunk pipelines. Inventories are stated at lower of cost or net realizable value.

When physical assets are gifted or sold for a nominal sum to parties external to the government reporting entity, the fair values of these physical assets less any nominal proceeds are recorded as grants in kind.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Liabilities include all financial claims payable by the Ministry at fiscal year end.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, advances, accounts payable and accrued liabilities, security deposits, and gas royalty deposits are estimated to approximate their carrying values because of the short term nature of these instruments.

Net Assets (Liabilities)

Net assets (liabilities) represent the difference between the carrying value of assets held by the Ministry and its liabilities.

Note 3 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2010, securities held by the Fund have a time-weighted rate of return of 1.0% per annum (2009: 3.0% per annum). Deposits received by the Ministry as security against leases are included in cash.

Note 4 Accounts Receivable

Accounts receivable are secured by a claim against the mineral leases.

Note 5 Tangible Capital Assets

	Land	Equipment	Computer hardware and software	2010 Total	2009 Total
Estimated Useful Life	Indefinite	3 to 10 years	3 to 20 years		
Historical Cost					
Beginning of Year	$ 320	$ 46,877	$ 171,575	$ 218,772	$ 193,488
Additions	-	2,628	23,863	26,491	28,214
Disposals, Including Write-Downs	(38)	(386)	(3,151)	(3,575)	(2,930)
	$ 282	$ 49,119	$ 192,287	$ 241,688	$ 218,772
Accumulated Amortization					
Beginning of Year	$ -	$ 28,149	$ 107,196	$ 135,345	$ 117,576
Amortization Expense	-	4,267	17,253	21,520	20,692
Effect of Disposals	-	(383)	(2,654)	(3,037)	(2,923)
	$ -	$ 32,033	$ 121,795	$ 153,828	$ 135,345
Net Book Value, March 31, 2010	$ 282	$ 17,086	$ 70,492	$ 87,860	
Net Book Value, March 31, 2009	$ 320	$ 18,728	$ 64,379		$ 83,427

Equipment includes leasehold improvements, office equipment and furniture, and other equipment.

Historical cost includes work-in-progress at March 31, 2010 totaling $13,871 (2009 - $9,739) comprised of software.

Note 6 Gas Royalty Deposits

The Ministry requires that natural gas producers maintain a deposit which in most cases is equal to one-sixth of the prior calendar year's royalties multiplied by the ratio of the long term gas reference price on the date which the recalculation of the gas deposits is determined to the prior calendar year average gas reference price. The Ministry does not pay interest on the deposits.

Note 7 Security Deposits

The Ministry encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, and oilfield waste management facilities by holding various forms of security. At March 31, 2010, the Ministry held $38,557 (2009: $35,941) in cash and an additional $77,717 (2009: $138,130) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

Note 8 Employee Future Benefits

The Ministry participates in multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $14,051 for the year ended March 31, 2010 (2009 - $11,502).

At December 31, 2009, the Management Employees Pension Plan reported a deficiency of $483,199 (2008 – $568,574) and the Public Service Pension Plan reported a deficiency of $1,729,196 (2008 – $1,187,538). At December 31, 2009, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $39,516 (2008 – $7,111).

Note 8 Employee Future Benefits (continued)

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2010, the Bargaining Unit Plan reported an actuarial deficiency of $8,335 (2009 – deficiency $33,540) and the Management, Opted Out and Excluded Plan an actuarial surplus of $7,431 (2009 – deficiency $1,051). The expense for these two plans is limited to the employer's annual contributions for the year.

In addition, the ERCB and the AUC maintain their own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration. The date used to measure all pension plan assets and accrued benefit obligations was March 31, 2010. The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2008. The effective date of the next required funding valuation for SEPP is December 31, 2011. Significant actuarial and economic assumptions used to value accrued benefit obligations and pension costs are as follows:

a) ERCB

	2010	2009
Accrued benefits obligations		
Discount rate	6.2%	8.6%
Rate of compensation increase (weighted average)	3.5%	3.5%
Benefit costs for the year		
Discount rate	8.6%	6.1%
Expected long-term rate of return on plan assets	6.5%	6.5%
Rate of compensation increase	3.5%	3.5%

The funded status and amounts recognized in the Consolidated Statements of Financial Position are as follows:

	2010	2009
Plan assets at fair value	$ 28,497	$ 24,440
Accrued benefit obligation	28,544	17,690
Plan (deficit) surplus	(47)	6,750
Unamortized net actuarial loss	7,474	673
Accrued pension asset	$ 7,427	$ 7,423

The asset allocation of the defined benefit pension plans investments is as follows:

	2010	2009
Equity securities	46.5 %	40.4 %
Debt securities	41.7 %	39.7 %
Other	11.8 %	19.9 %
	100.0%	100.0%

Additional information about the defined benefit pension plans are as follows:

	2010	2009
ERCB contribution	$ 812	$1,519
Employees' contribution	386	319
Benefit paid	851	919
Pension benefit costs	808	1,391

Note 8 Employee Future Benefits (continued)

b) AUC

	2010	2009
Accrued benefits obligations		
Discount rate	6.2%	8.6%
Rate of compensation increase (weighted average)	3.5%	3.5%
Benefit costs for the year		
Discount rate	8.6%	6.1%
Expected long-term rate of return on plan assets	6.2%	6.3%
Rate of compensation increase	3.5%	3.5%

The funded status and amounts recognized in the Consolidated Statements of Financial Position are as follows:

	2010	2009
Fair value of plan assets	$ 3,450	$ 2,950
Accrued benefit obligation	3,607	2,000
Plan (deficit) surplus	(157)	950
Unamortized net actuarial (gain) loss	1,028	(101)
Accrued pension asset	$ 871	$ 849

Additional information about the defined benefit pension plans is as follows:

	2010	2009
AUC contribution	$200	$328
Employees' contribution	100	84
Benefit paid	231	-
Pension benefit costs	178	274

The asset allocation of the defined benefit pension plans investments is as follows:

	2010	2009
Equity securities	44.5 %	39.0 %
Debt securities	39.5 %	38.4 %
Other	16.0 %	22.6 %
	100.0%	100.0%

Note 9 Trust Funds under Administration

The Ministry administers trust funds which are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds, and administers them for the purpose of various trusts, they are not included in the Ministry's financial statements.

As at March 31 trust funds under administration were as follows:

	2010	2009
Oil and Gas Conservation Trust	$ 3,806	$ 3,718

Note 10 Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2010 amount to $247,645 (2009 - $63,582). These commitments will become expenses of the Ministry when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature.

These amounts include obligations under long-term leases with lease payment requirements in future years of:

	Grant Agreements	Service Contracts	Long-term Leases	Total
2011	$ 28,999	$ 14,095	$ 8,821	$ 51,915
2012	-	2,202	9,763	11,965
2013	-	2,202	9,665	11,867
2014	-	2,202	9,737	11,939
2015	-	2,202	9,533	11,735
Thereafter	-	2,202	146,022	148,224
	$ 28,999	$ 25,105	$ 193,541	$ 247,645

Alberta Petroleum Marketing Commission

The Alberta Petroleum Marketing Commission has allocated a portion of its anticipated pipeline requirements to transportation agreements expiring in March 2012. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2009 is $17,986 (2008 - $30,044). This commitment will be paid from future oil royalty revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

	Total
2010	$ 7,994
2011	7,994
2012	1,998
	$ 17,986

Note 11 Contingencies and Other Liabilities

Set out below are details of contingencies resulting from administrative actions and litigation, other than those reported as liabilities.

(a) Land Claims

The government identifies and set aside specific tracts of land to satisfy land claims made by Indian Bands. The claims related to these lands are under negotiation but are not yet resolved. In one instance, the Ministry may have to revoke 23 petroleum and natural gas dispositions for which the government accepted bonuses, rental payments and royalties. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

Note 11 Contingencies and Other Liabilities (continued)

(b) Legal Claims

At March 31, 2010, the Ministry is a defendant in six legal claims (2009 – seven legal claims). Four of these claims have specified amounts totaling $1,373,265 and the remaining two claims have no specified amount (2009 – five with specified amounts totaling $1,375,596 and the remaining two claims with no specified amount). The Ministry has been jointly named with other entities in four claims (2009 – all claims specified amounts totaling $1,375,596). One claim totaling $572,500 (2009 – zero) is covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

(c) Bitumen Royalties

On January 1, 2009, the Province implemented the New Royalty Framework. As part of the New Royalty Framework, the Bitumen Valuation Methodology (Ministerial) Regulation (the "BVM Regulation") was enacted. The BVM Regulation establishes a method to determine a deemed price for bitumen for producers who dispose of bitumen mostly through non-arm's length transactions. This price so determined factors into the calculation of royalties due to the Province from oil sands projects.

The Province has "Royalty Amending Agreements" with two oil sands royalty projects, governing royalties through 2015. In each case the Royalty Amending Agreement (RAA) undertakes that the bitumen valuation methodology ("BVM") applicable to the project will include "reasonable adjustments" to reflect quality differences between the project's bitumen and the bitumen reflected in the deemed price used in the BVM Regulation and also to reflect transportation costs to the reference price location.

Non-renewable resource revenue reported in 2010 on the consolidated statements of operations includes an estimate of the royalties that the Ministry expects to recover from the two projects.

During 2009, Suncor and Syncrude filed non-compliance notices with the Province, alleging that the BVM Regulation does not establish the reasonable quality and transportation adjustments required by their respective RAAs.

The Province amended the Oil Sands Royalty Regulation in 2009 to include a methodology to determine royalty amounts due to the Province on pre-2009 inventory and pre-2009 transitional inventory. This royalty was due April 30, 2010. Both companies have indicated that no amounts are owing for this inventory because of their RAAs.

The Royalty Amending Agreements include a dispute resolution process that, if unsuccessful, will culminate in the one instance in arbitration and in the other instance in Court proceedings. Bitumen royalties reported may be adjusted following resolution of these issues, potentially significantly.

Note 12 Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Natural gas and by-products revenue recorded as $1,525,397 and synthetic crude oil and bitumen royalties recorded as $3,160,349 in these financial statements are subject to measurement uncertainty.

Natural gas and by-products revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the Ministry by royalty payers. These costs and volumes could vary significantly from that initially reported. The Ministry estimates what the costs, volumes and royalty rates for the fiscal year should be based on statistical analysis of industry data. Based on historical data, natural gas and by-products revenue could change by $175,000.

For projects from which synthetic crude oil and bitumen royalties are paid and the project has reached payout, the royalty rate used to determine the royalties is based on the average price of West Texas Intermediate crude oil in Canadian dollars for the calendar year. Royalty rates will start at 25% of net profits when oil is priced at fifty five dollars per barrel or less, and increase to a maximum of 40% of net profits when oil is priced at one hundred and twenty dollars or more. Payout is defined at the first date at which the cumulative revenue of a project first equals the cumulative cost of the project.

Drilling royalty credits recorded under the Energy Industry Drilling Stimulus Program include an estimate of $283,000 for credits expected to be claimed in the future for royalties paid between April 1, 2009 and March 31, 2010. The actual amounts claimed and paid could be materially different than the amount estimated.

Note 13 Related Party Transactions

The Ministry paid $5,466 (2009 - $7,670) to various other Government of Alberta departments, agencies or funds for supplies and/or services during the fiscal year and received $293 (2009 - $2,388) as revenue. Included in these services was a payment of $48 (2009 - $412) for the lease of a research facility from Alberta Infrastructure. The remaining term of this lease is 76 years and the future annual payments are $48.

Accommodations, legal, telecommunications, personnel, internal audit services, and certain financial costs were provided to the Ministry by other government organizations at no cost. However, services contributed by other entities in support of the Ministry operations are disclosed in Schedule 3.

Note 14 Royalty Reduction Programs

The Ministry provides the Energy Industry Drilling Stimulus Program along with seven other oil and gas royalty reduction programs. The intent of these programs is to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2010, the royalties received under these programs were reduced by $1,465,144 (2009 - $671,066).

Note 15 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by $61,919 (2009 - $132,018).

Note 16 Energy Industry Drilling Stimulus Program

Starting April 1, 2009, the Ministry implemented a drilling stimulus program that impacted the royalties for the year ended March 31, 2010. The first feature was a maximum royalty rate of 5% for the first 50,000 barrels of oil or 500,000 Mcf of gas produced from a well drilled on or after April 1, 2009.

The second feature was a drilling credit of $200 per metre for wells drilled between April 1, 2009 and March 31, 2010. A sliding scale of 10% to 50%, (based on the oil and gas production level of a company) of 2009/10 natural gas and conventional oil royalties, caps the amount of the credit a company can receive. The Province announced an extension of the program by one year on June 25, 2009.

In the fiscal year ended March 31, 2010, natural gas and by-product royalties and conventional oil royalties were reduced by $197,226 and $135,625 respectively due to the New Well Royalty Rate feature, while $786,203 was reduced due to the drilling credit feature.

Note 17 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer of the Ministry.

MINISTRY OF ENERGY **Schedule 1**

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Revenues

Year ended March 31

	(in thousands)		
	2010		2009
	Budget	**Actual**	**Actual**
Non-Renewable Resource Revenue (Note 14)			
Synthetic Crude Oil and Bitumen Royalty (Note 11c)	$ 1,008,000	$ 3,160,349	$ 2,973,132
Crude Oil Royalty	1,249,000	1,848,269	1,800,120
Natural Gas and By-Products Royalty (Note 15)	3,687,000	1,525,397	5,834,006
Bonuses and Sales of Crown Leases	631,000	1,164,407	1,112,403
Rentals and Fees	143,000	157,707	159,865
Coal Royalty	27,000	30,866	35,770
Energy Industry Drilling Stimulus Program (Note 16)	(842,000)	(1,119,054)	-
	5,903,000	6,767,941	11,915,296
Freehold Mineral Rights Tax	200,000	124,466	260,913
Industry Levies and Licenses	145,743	142,226	140,567
Other Revenue			
Other	9,859	45,074	39,975
Interest	3,100	759	2,661
	12,959	45,833	42,636
Total Revenue	$ 6,261,702	$ 7,080,466	$ 12,359,412

MINISTRY OF ENERGY **Schedule 2**

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Expenses - Directly Incurred Detailed by Object

Year ended March 31

	(in thousands)		
	2010		2009
	Budget	Actual	Actual
Voted			
Salaries, Wages and Employee Benefits	$ 198,282	$ 190,579	$ 181,536
Supplies and Services	80,446	93,314	85,597
Grants	190,000	68,709	93,904
Amortization Of Tangible Capital Assets	20,088	22,020	20,699
Well Abandonment	13,000	13,000	12,727
Valuation Adjustments	-	784	785
Financial Transactions and Other	120	120	122
Total Voted Expenses before Recoveries	501,936	388,526	395,370
Less Recovery from Support Service Arrangements with Related Parties	(600)	(565)	(570)
Total Voted Expenses	$ 501,336	$ 387,961	$ 394,800

MINISTRY OF ENERGY **Schedule 3**

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Allocated Costs

Year ended March 31

(in thousands)

	2010									2009
		Expenses Incurred by Others					Valuation Adjustments			
Program	Expenses [1]	Accommodation Costs	Transportation Costs	Service Alberta	GOA Learning Centre	Legal Services	Vacation Pay	Doubtful Accounts	Total Expenses	Total Expenses
Ministry Support Services	$ 2,010	$ 307	$ -	$ -	$ -	$ 142	$ 8	$ -	$ 2,467	$ 2,345
Resource Development and Management	176,214	5,844	475	3,358	130	3,414	774	2	190,211	182,088
Energy and Utilities Regulation	209,737	-	-	-	-	-	-	-	209,737	218,683
	$ 387,961	$ 6,151	$ 475	$ 3,358	$ 130	$ 3,556	$ 782	$ 2	$ 402,415	$ 403,116

(1) Expenses - Directly Incurred as per Statement of Operations, excluding valuation adjustments.

DEPARTMENT OF ENERGY

FINANCIAL STATEMENTS
For the year ended March 31, 2010

Auditor's Report

Statements of Operations

Statements of Financial Position

Statements of Cash Flows

Notes to the Financial Statements

Schedules to the Financial Statements

Auditor's Report

To the Minister of Energy

I have audited the statements of financial position of the Department of Energy as at March 31, 2010 and 2009 and the statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Department's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
June 8, 2010

DEPARTMENT OF ENERGY

STATEMENTS OF OPERATIONS

Year ended March 31

	(in thousands)		
	2010		2009
	Estimates (Schedule 3)	Actual	Actual
Revenues (Schedule 1)			
Non-Renewable Resource Revenue	$ 5,903,000	$ 6,767,941	$ 11,915,296
Freehold Mineral Rights Tax	200,000	124,466	260,913
Other Revenue	500	38,260	29,756
	6,103,500	6,930,667	12,205,965
Expenses - Directly Incurred (Note 2b and Schedule 6)			
Voted (Schedules 2 and 3)			
Ministry Support Services	2,195	2,010	2,053
Resource Development and Management	179,111	171,401	173,442
Energy and Utilities Regulation	68,993	67,193	70,543
	250,299	240,604	246,038
Statutory (Schedules 2 and 3)			
Valuation Adjustments			
Provision for Doubtful Accounts	35	2	-
Provision for Vacation Pay	-	782	785
Payments made under the *Mines and Minerals Act*	-	3,491	-
Carbon Capture and Storage	100,000	538	-
	100,035	4,813	785
	350,334	245,417	246,823
Net Operating Results	$ 5,753,166	$ 6,685,250	$ 11,959,142

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF ENERGY
STATEMENTS OF FINANCIAL POSITION
As at March 31

	(in thousands) 2010	 2009
Assets		
Cash	$ 436,685	$ 438,807
Accounts Receivable (Note 3)	1,301,283	570,521
Prepaid Expenses	1,904	209
Tangible Capital Assets (Note 4)	33,970	29,940
	$ 1,773,842	$ 1,039,477
Liabilities		
Accounts Payable and Accrued Liabilities (Note 5)	$ 593,317	$ 174,708
Gas Royalty Deposits (Note 6)	1,040,553	1,040,214
Unearned Revenue	69,816	70,129
	1,703,686	1,285,051
Net Assets (Liabilities):		
Net (Liabilities) Assets at Beginning of Year	(245,574)	1,470,403
Net Operating Results	6,685,250	11,959,142
Net Financing Provided for General Revenues	(6,369,520)	(13,675,119)
Net Assets (Liabilities) at End of Year	70,156	(245,574)
	$ 1,773,842	$ 1,039,477

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF ENERGY

STATEMENTS OF CASH FLOWS

Year ended March 31

	2010	2009
	(in thousands)	
Operating Transactions		
Net Operating Results	$ 6,685,250	$ 11,959,142
Non-cash items included in Net Operating Results		
Amortization	5,491	4,481
Valuation Adjustments	784	785
	6,691,525	11,964,408
(Increase) Decrease in Accounts Receivable	(730,762)	1,511,615
(Increase) Decrease in Prepaid Expenses	(1,695)	491
Increase (Decrease) in Accounts Payable and Accrued Liabilities	417,825	(131,529)
(Decrease) Increase in Unearned Revenue	(313)	287
Cash Provided by Operating Transactions	6,376,580	13,345,272
Capital Transactions		
Acquisition of Tangible Capital Assets	(9,521)	(9,906)
Cash Applied to Capital Transactions	(9,521)	(9,906)
Financing Transactions		
Net Financing Provided for General Revenues	(6,369,520)	(13,675,119)
Increase in Gas Royalty Deposits	339	54,091
Cash Applied to Financing Transactions	(6,369,181)	(13,621,028)
Decrease in Cash	(2,122)	(285,662)
Cash at Beginning of Year	438,807	724,469
Cash at End of Year	$ 436,685	$ 438,807

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF ENERGY
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 1 Authority

The Department of Energy operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB financial statements presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the departments.

(a) Reporting Entity

The reporting entity is the Department of Energy, which is part of the Ministry of Energy and for which the Minister of Energy is accountable. Other entities reporting to the Minister are the Alberta Petroleum Marketing Commission, the Energy Resources Conservation Board and the Alberta Utilities Commission. The activities of these organizations are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance and Enterprise. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net Financing Provided from (for) General Revenues is the difference between all cash receipts and all cash disbursements made.

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue. The provincial royalty system is predicated on self-reporting where the petroleum and natural gas industry is expected to understand the relevant energy legislation (statutes and regulations) and comply with them. This has an impact on the completeness of revenue when the petroleum and natural gas industry do not fully meet the legislative requirements and, for example, report inaccurate or incomplete production data. The Department has implemented systems and controls to detect and correct situations where the petroleum and natural gas industry has not complied with the various Acts and Regulations the Department administers. These systems and controls, based on areas of highest risk, include performing audits of the petroleum and natural gas industry records where determined necessary by the Department. The Department does not estimate the effect of misreported revenue.

Crude oil and natural gas royalties are determined based on monthly production. Revenue is recognized when the resource is produced by the mineral rights holders.

Synthetic crude oil and bitumen royalties are determined based on revenues from production sold by projects less the costs of that production and the costs of selling the Crown's royalty share. Royalty revenue is recognized when the resource is produced by the mineral rights holders.

Freehold mineral taxes are determined at the end of a calendar year based on production and costs of production incurred in the calendar year. Revenue is recognized on a prorated basis, by month, of the estimated calendar year taxes and royalty that will be due to the Crown.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Basis of Financial Reporting (continued)

Revenues (continued)

Revenue from bonuses and sales of Crown leases is recognized when the Crown leases are sold. Rentals and fees revenue is recognized over the term of the leases.

Expenses

Directly Incurred

Directly incurred expenses are those costs the Department has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs, which are the cost of employer contributions during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Grants are recognized as expenses when authorized and eligibility criteria, if any, are met.

Incurred by Others

Services contributed by other entities in support of the Department operations are not recognized and are disclosed in Schedule 5 and allocated to programs in Schedule 6.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250 and the threshold for major systems enhancements is $100. The threshold for all other tangible capital assets is $5.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Net Assets/Net Liabilities

Net assets/net liabilities represent the difference between the carrying value of assets held by the Department and its liabilities.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Basis of Financial Reporting (continued)

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities, and gas royalty deposits are estimated to approximate their carrying values because of the short-term nature of these instruments.

Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Natural gas and by-products revenue recorded as $1,525,397 and synthetic crude oil and bitumen royalties recorded as $3,160,349 in these financial statements are subject to measurement uncertainty.

Natural gas and by-products revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the Department by royalty payers. These costs and volumes could vary significantly from that initially reported. The Department estimates what the costs, volumes and royalty rates for the fiscal year should be based on statistical analysis of industry data. Based on historical data, natural gas and by-products revenue could change by $175,000.

For projects from which synthetic crude oil and bitumen royalties are paid and the project has reached payout, the royalty rate used to determine the royalties is based on the average price of West Texas Intermediate crude oil in Canadian dollars for the calendar year. Royalty rates will start at 25% of net profits when oil is priced at fifty five dollars per barrel or less, and increase to a maximum of 40% of net profits when oil is priced at one hundred and twenty dollars or more. Payout is defined at the first date at which the cumulative revenue of a project first equals the cumulative cost of the project.

Drilling royalty credits recorded under the Energy Industry Drilling Stimulus Program include an estimate of $283,000 for credits expected to be claimed in the future for royalties paid between April 1, 2009 and March 31, 2010. The actual amounts claimed and paid could be materially different than the amount estimated.

Note 3 Accounts Receivable

Accounts receivable are secured by a claim against the mineral leases.

DEPARTMENT OF ENERGY
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 4 Tangible Capital Assets

	Equipment	Computer hardware and software	2010 Total	2009 Total
Estimated Useful Life	3 to 10 years	10 years		
Historical Cost				
Beginning of Year	$ 17,293	$ 82,303	$ 99,596	$ 89,690
Additions	1,379	8,142	9,521	9,906
Disposals	-	(563)	(563)	-
	$ 18,672	$ 89,882	$ 108,554	$ 99,596
Accumulated Amortization				
Beginning of Year	$ 13,096	$ 56,560	$ 69,656	$ 65,175
Amortization Expense	1,172	4,083	5,255	4,481
Disposals	-	(327)	(327)	-
	$ 14,268	$ 60,316	$ 74,584	$ 69,656
Net Book Value at March 31, 2010	$ 4,404	$ 29,566	$ 33,970	
Net Book Value at March 31, 2009	$ 4,197	$ 25,743		$ 29,940

Historical cost includes work-in-progress at March 31, 2010 totaling $10,829 (2009 - $5,981) for computer software. Computer software with a net book value of $236 (Cost: $563; Accumulated Amortization: $327) with no remaining economic life were disposed during the year. Accordingly, a loss of $236 is included in Amortization – computer software on Schedule 2.

Note 5 Accounts Payable and Accrued Liabilities

	2010	2009
Trade	$ 32,679	$ 51,431
Energy Industry Drilling Stimulus Program and Overpayments of Royalties	556,835	115,178
Alberta Royalty Tax Credit	3,803	8,099
	$ 593,317	$ 174,708

Note 6 Gas Royalty Deposits

The Department requires that natural gas producers maintain a deposit which in most cases is equal to one-sixth of the prior calendar year's royalties multiplied by the ratio of the long term gas reference price on the date which the recalculation of the gas deposits is determined to the prior calendar year average gas reference price. The Department does not pay interest on the deposits.

Note 7 Contingencies and Other Liabilities

Set out below are details of contingencies resulting from administrative actions and litigation, other than those reported as liabilities.

(a) Land Claims

The government identifies and sets aside specific tracts of land to satisfy land claims made by Indian Bands. The claims related to these lands are under negotiation but are not yet resolved. In one instance, the Department may have to revoke 23 petroleum and natural gas dispositions for which the government accepted bonus, rental payments, and royalties. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

(b) Legal Claims

At March 31, 2010, the Department is a defendant in six legal claims (2009 – seven legal claims). Four of these claims have specified amounts totaling $1,373,265 and the remaining two claims have no specified amount (2009 – five with specified amounts totaling $1,375,596 and the remaining two claims with no specified amount). The Department has been jointly named with other entities in four claims (2009 – all claims specified amounts totaling $1,375,596). One claim totaling $572,500 (2009 – zero) is covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

(c) Bitumen Royalties

On January 1, 2009, the Province implemented the New Royalty Framework. As part of the New Royalty Framework, the Bitumen Valuation Methodology (Ministerial) Regulation (the "BVM Regulation") was enacted. The BVM Regulation establishes a method to determine a deemed price for bitumen for producers who dispose of bitumen mostly through non-arm's length transactions. This price so determined factors into the calculation of royalties due to the Province from oil sands projects.

The Province has "Royalty Amending Agreements" with two oil sands royalty projects, governing royalties through 2015. In each case the Royalty Amending Agreement (RAA) undertakes that the bitumen valuation methodology ("BVM") applicable to the project will include "reasonable adjustments" to reflect quality differences between the project's bitumen and the bitumen reflected in the deemed price used in the BVM Regulation and also to reflect transportation costs to the reference price location.

Non-renewable resource revenue reported in 2010 on the statements of operations includes an estimate of the royalties that the Department expects to recover from the two projects.

During 2009, Suncor and Syncrude filed non-compliance notices with the Province, alleging that the BVM Regulation does not establish the reasonable quality and transportation adjustments required by their respective RAAs.

The Province amended the Oil Sands Royalty Regulation in 2009 to include a methodology to determine royalty amounts due to the Province on pre-2009 inventory and pre-2009 transitional inventory. This royalty was due April 30, 2010. Both companies have indicated that no amounts are owing for this inventory because of their RAAs.

The Royalty Amending Agreements include a dispute resolution process that, if unsuccessful, will culminate in the one instance in arbitration and in the other instance in Court proceedings. Bitumen royalties reported may be adjusted following resolution of these issues, potentially significantly.

Note 8 Energy Industry Drilling Stimulus Program

Starting April 1, 2009, the Department implemented a drilling stimulus program that impacted the royalties for the year ended March 31, 2010. The first feature was a maximum royalty rate of 5% for the first 50,000 barrels of oil or 500,000 Mcf of gas produced from a well drilled on or after April 1, 2009.

The second feature was a drilling credit of $200 per metre for wells drilled between April 1, 2009 and March 31, 2010. A sliding scale of 10% to 50%, (based on the oil and gas production level of a company) of 2009/10 natural gas and conventional oil royalties, caps the amount of the credit a company can receive. The Province announced an extension of the program by one year on June 25, 2009.

In the fiscal year ended March 31, 2010, natural gas and by-product royalties and conventional oil royalties were reduced by $197,226 and $135,625 respectively due to the New Well Royalty Rate feature, while $786,203 was reduced due to the drilling credit feature.

Note 9 Contractual Obligations

As at March 31, 2010, the Department had commitments totaling $54,104 (2009 - $26,638). These commitments will become expenses of the Department when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature.

These amounts include obligations under long-term contracts with contract payment requirements in future years of:

	Grant Agreements	Service Contracts	Total
2011	$ 28,999	$ 14,095	$ 43,094
2012	-	2,202	2,202
2013	-	2,202	2,202
2014	-	2,202	2,202
2015	-	2,202	2,202
Thereafter	-	2,202	2,202
	$ 28,999	$ 25,105	$ 54,104

Note 10 Trust Funds Under Administration

The Department administers the Oil and Gas Conservation Trust which is a regulated fund consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the fund and administers the fund for the purpose of various trusts, the fund is not included in the Department's financial statements.

As at March 31, 2010, the funds in the Oil and Gas Conservation Trust was $3,806 (2009 - $3,718).

Note 11 Benefits Plans

The Department participates in the multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $6,136 for the year ended March 31, 2010 (2009 – $4,839).

At December 31, 2009, the Management Employees Pension Plan reported a deficiency of $483,199 (2008 – deficiency $568,574) and the Public Service Pension Plan reported a deficiency of $1,729,196 (2008 deficiency – $1,187,538). At December 31, 2009, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $39,516 (2008 – deficiency $7,111).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2010, the Bargaining Unit Plan reported an actuarial deficiency of $8,335 (2009 – deficiency $33,540) and the Management, Opted Out and Excluded Plan an actuarial surplus of $7,431 (2009 – deficiency $1,051). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 12 Royalty Reduction Programs

The Department provides the Energy Industry Drilling Stimulus Program along with seven other oil and gas royalty reduction programs. The intent of these programs is to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2010, the royalties received under these programs were reduced by $1,465,144 (2009 - $671,066).

Note 13 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by $61,919 (2009 - $132,018).

Note 14 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer.

DEPARTMENT OF ENERGY **Schedule 1**

SCHEDULES TO FINANCIAL STATEMENTS

Revenues

Year ended March 31

	(in thousands)		
	2010		**2009**
	Budget	**Actual**	**Actual**
Non-Renewable Resource Revenue (Note 12)			
Synthetic Crude Oil and Bitumen Royalty (Note 7c)	$ 1,008,000	$ 3,160,349	$ 2,973,132
Crude Oil Royalty	1,249,000	1,848,269	1,800,120
Natural Gas and By-Products Royalty (Note 13)	3,687,000	1,525,397	5,834,006
Bonuses and Sales of Crown Leases	631,000	1,164,407	1,112,403
Rentals and Fees	143,000	157,707	159,865
Coal Royalty	27,000	30,866	35,770
Energy Industry Drilling Stimulus Program (Note 8)	(842,000)	(1,119,054)	-
	5,903,000	6,767,941	11,915,296
Freehold Mineral Rights Tax	200,000	124,466	260,913
Other Revenue	500	38,260	29,756
Total Revenue	$ 6,103,500	$ 6,930,667	$ 12,205,965

DEPARTMENT OF ENERGY **Schedule 2**

SCHEDULES TO FINANCIAL STATEMENTS

Expenses - Directly Incurred Detailed by Object

Year ended March 31

	(in thousands)		
	2010		2009
	Budget	**Actual**	**Actual**
Voted			
Grants	$ 159,357	$ 148,902	$ 164,447
Salaries, Wages and Employee Benefits	64,221	65,127	55,946
Supplies and Services	22,613	21,529	21,612
Amortization Of Tangible Capital Assets	4,588	5,491	4,481
Financial Transactions and Other	120	120	122
Total Voted Expenses before Recoveries	250,899	241,169	246,608
Less Recovery from Support Service Arrangements with Related Parties [(a)]	(600)	(565)	(570)
Total Voted Expenses	$ 250,299	$ 240,604	$ 246,038
Statutory			
Valuation adjustments			
Provision for Doubtful Accounts	$ 35	$ 2	$ -
Provision for Vacation Pay	-	782	785
Payments made under the *Mines and Minerals Act*	-	3,491	-
Carbon Capture and Storage	100,000	538	-
	$ 100,035	$ 4,813	$ 785

(a) The Department provides financial services to the Ministry of Tourism, Parks and Recreation and the Ministry of Sustainable Resource Development. Costs incurred by the Department for these services are recovered from the Ministry of Tourism, Parks and Recreation and the Ministry of Sustainable Resource Development.

DEPARTMENT OF ENERGY **Schedule 3**

SCHEDULE TO FINANCIAL STATEMENTS

Comparison of Expenses - Directly Incurred, Equipment/Inventory Purchases (EIP) and Capital Investment, Statutory Expenses, and Non-Budgetary Disbursements by Element to Authorized Budget

Year ended March 31

(in thousands)

Voted Expense, EIP and Capital Investments	**2009-10 Authorized Budget**	**2009-10 Actual**	**Unexpended (Over Expended)**
Program 1 - Ministry Support Services			
1.0.1 Minister's Office	$ 450	$ 446	$ 4
1.0.2 Deputy Ministers' Office	511	476	35
1.0.3 Communications	1,234	1,088	146
	2,195	2,010	185
Program 2 - Resource Development and Management			
2.0.1 Revenue Collection			
- Operating Expense	52,132	53,114	(982)
- Equipment/Inventory Purchases	2,315	4,491	(2,176)
2.0.2 Resource Development			
- Operating Expense	36,979	38,715	(1,736)
- Equipment/Inventory Purchases	-	5,030	(5,030)
2.0.3 Energy Innovation Fund Initiatives	-	-	-
2.0.4 Biofuel Initiatives	55,000	49,572	5,428
2.0.5 Conservation and Energy Efficiency Initiatives	5,000	-	5,000
2.0.6 Support for Well Abandonment and Reclamation	30,000	30,000	-
	181,426	180,922	504
Program 3 - Energy and Utilities Regulation			
3.0.1 Assistance to the Energy Resources Conservation Board	68,993	67,193	1,800
3.0.2 Assistance to the Alberta Utilities Commission	-	-	-
	68,993	67,193	1,800
Total Voted Expense, EIP and Capital Investments	$ 252,614	$ 250,125	$ 2,489
Program Operating Expense	$ 250,299	$ 240,604	$ 9,695
Program Capital Investment	2,315	9,521	(7,206)
Total Voted Expenses	$ 252,614	$ 250,125	$ 2,489
Statutory Expenses			
Valuation Adjustments			
Provision for Doubtful Accounts	$ 35	$ 2	$ 33
Provision for Vacation Pay	-	782	(782)
Payments made under the *Mines and Minerals Act*	-	3,491	(3,491)
Carbon Capture and Storage	100,000	538	99,462
	$ 100,035	$ 4,813	$ 95,222

DEPARTMENT OF ENERGY **Schedule 4**

SCHEDULES TO FINANCIAL STATEMENTS

Salary and Benefits Disclosure

Year ended March 31

	2010				2009
	Base Salary [1]	Other Cash Benefits [2]	Other Non-cash Benefits [3]	Total	Total
Deputy Minister [4]	$ 264,070	$ -	$ 62,916	$ 326,986	$ 390,000
Executives					
Assistant Deputy Minister - Corporate Services [5]	174,817	-	42,339	217,156	156,000
Assistant Deputy Minister - Electricity & Alternative Energy [6]	185,117	-	44,654	229,771	152,000
Assistant Deputy Minister - Oil Sands [7]	33,050	-	8,955	42,005	-
Assistant Deputy Minister - Resource Development Policy [8]	30,158	-	8,737	38,895	-
Assistant Deputy Minister - Resource Revenue & Operations [9]	174,817	7,422	41,341	223,580	158,000
Assistant Deputy Minister - Royalty Implementation	185,117	-	39,221	224,338	243,000
Assistant Deputy Minister - Strategic Initiatives [10]	34,110	-	9,995	44,105	-
Executive Lead - Energy Future [11]	25,015	-	7,249	32,264	-
Executive Director - Human Resources	142,479	-	34,670	177,149	170,000
Assistant Deputy Minister - Energy Future and Strategic Relations [12]	151,007	-	34,823	185,830	246,000
Assistant Deputy Minister - Energy Policy & Research [13]	147,356	-	33,204	180,560	248,000
Executive Director - Oil Sands Operations [14]	131,038	-	29,483	160,521	165,000

Total salary and benefits relating to a position are disclosed.

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include vacation payouts and/or lump sum payments. There were no bonuses paid in 2010.

(3) Other non-cash benefits include government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.

(4) Automobile provided, no dollar amount included in other non-cash benefits.

(5) This position commenced on July 21, 2008.

(6) This position commenced in August 2008.

(7) On February 1, 2010, the Deputy Minister announced a revised executive team structure creating this new position. The salary and benefits for this position were paid for by Executive Council.

(8) On February 1, 2010, the Deputy Minister announced a revised executive team structure. This position was occupied by an individual in an acting position.

(9) This position commenced on July 21, 2008.

(10) On February 1, 2010, the Deputy Minister announced a revised executive team structure creating this new position.

(11) On February 1, 2010, the Deputy Minister announced a revised executive team structure creating this new position. The salary and benefits for this position were paid for by the Ministry of Agriculture and Rural Development.

(12) On February 1, 2010, the Deputy Minister announced a revised executive team structure. This position no longer exists.

(13) On February 1, 2010, the Deputy Minister announced a revised executive team structure. This position no longer exists. This position was held by two people during the year; one was in an acting position.

(14) On February 1, 2010, the Deputy Minister announced a revised executive team structure. This position is no longer on the executive team.

DEPARTMENT OF ENERGY

SCHEDULES TO FINANCIAL STATEMENTS

Related Party Transactions

Year ended March 31

(in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded on the Statements of Operations and the Statements of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other Entities	
	2010	2009	2010	2009
Expenses - Directly Incurred				
Grants	$ 67,193	$ 70,543	$ -	$ -
Other services	2,021	2,059	4	4
	$ 69,214	$ 72,602	$ 4	$ 4

The above transactions do not include support service arrangement transactions disclosed in Schedule 2.

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are disclosed in Schedule 6.

	Entities in the Ministry		Other Entities	
	2010	2009	2010	2009
Expenses - Incurred by Others				
Accommodation	$ -	$ -	$ 6,151	$ 4,320
Air Transportation	-	-	475	975
Service Alberta	-	-	3,358	-
GOA Learning Centre	-	-	130	-
Legal	-	-	3,556	3,067
	$ -	$ -	$ 13,670	$ 8,362

DEPARTMENT OF ENERGY

Schedule 6

SCHEDULES TO FINANCIAL STATEMENTS

Allocated Costs

Year ended March 31

(in thousands)

	2010									2009
		Expenses Incurred by Others					Valuation Adjustments (7)			
Program	Expenses (1)	Accommodation Costs(2)	Transportation Costs (3)	Service Alberta (4)	GOA Learning Centre (5)	Legal Services (6)	Vacation Pay	Doubtful Accounts	Total Expenses	Total Expenses
Ministry Support Services	$ 2,010	$ 307	$ -	$ -	$ -	$ 142	$ 8	$ -	$ 2,467	$ 2,345
Resource Development and Management	171,401	5,844	475	3,358	130	3,414	774	2	185,398	182,087
Energy and Utilities Regulation	67,193	-	-	-	-	-	-	-	67,193	70,543
	$ 240,604	$ 6,151	$ 475	$ 3,358	$ 130	$ 3,556	$ 782	$ 2	$ 255,058	$ 254,975

(1) Expenses - Directly Incurred as per Statement of Operations, excluding valuation adjustments.

(2) Costs shown for Accommodation on Schedule 5, allocated by budgeted Full-Time Equivalent Employment.

(3) Costs shown for Air Transportation Costs on Schedule 5, allocated by estimated costs incurred by each program.

(4) Costs shown for Service Alberta costs on Schedule 5, allocated by estimated costs incurred by each program.

(5) Costs shown for Learning Centre on Schedule 5, allocated by estimated costs incurred by each program.

(6) Costs shown for Legal Services on Schedule 5, allocated by estimated costs incurred by each program.

(7) Valuation Adjustments as per Statement of Operations. Employee Benefits and Doubtful Accounts provision included in Valuation Adjustments were allocated as follows:

- Vacation Pay - allocated to the program by employee.
- Doubtful Accounts Provision - estimated allocation to program.

ENERGY RESOURCES CONSERVATION BOARD

FINANCIAL STATEMENTS

For the year ended March 31, 2010

Auditor's Report
Statements of Operations
Statements of Financial Position
Statements of Cash Flows
Notes to the Financial Statements
Schedules to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Members of the Energy Resources Conservation Board

I have audited the statements of financial position of the Energy Resources Conservation Board as at March 31, 2010 and 2009 and the statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
May 14, 2010

ENERGY RESOURCES CONSERVATION BOARD
STATEMENTS OF OPERATIONS
Year ended March 31
(in thousands)

	2010		2009
	Estimates (Schedule 3)	**Actual**	**Actual**
Revenues			
Industry levies and assessments	$ 111,205	$ 111,368	$ 108,650
Provincial grant	68,993	67,193	70,543
Information, services and fees	9,259	6,670	10,007
Investment	2,500	596	2,201
	191,957	185,827	191,401
Expenses			
Energy regulation (Schedule 1)	171,957	166,062	177,629
Orphan abandonment (Note 3)	13,000	13,000	12,727
	184,957	179,062	190,356
Net operating results	$ 7,000	$ 6,765	$ 1,045

The accompanying notes and schedules are an integral part of these financial statements.

ENERGY RESOURCES CONSERVATION BOARD
STATEMENTS OF FINANCIAL POSITION
As at March 31
(in thousands)

	2010	2009
Assets		
Current		
Cash and cash equivalents (Note 4)	$ 33,777	$ 33,021
Security deposits (Note 5)	38,557	35,941
Accounts receivable	4,031	4,451
Prepaid expenses	3,537	2,407
	79,902	75,820
Long-term receivables	16	860
Computer software (Note 6)	30,241	29,574
Property and equipment (Note 7)	15,750	15,495
Accrued pension asset (Note 8)	7,427	7,423
	$ 133,336	$ 129,172
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 18,985	$ 26,638
Grant payable to Orphan Well Association	11,919	8,916
Security deposits (Note 5)	38,557	35,941
Short-term unearned revenue	435	360
Current portion of deferred lease incentives	428	642
	70,324	72,497
Long-term unearned revenue	1,163	1,163
Long-term portion of deferred lease incentives	-	428
Total liabilities	71,487	74,088
Net Assets		
Net assets, beginning of year	55,084	54,039
Net operating results	6,765	1,045
Net assets, end of year	61,849	55,084
	$ 133,336	$ 129,172

The accompanying notes and schedules are an integral part of these financial statements.

ENERGY RESOURCES CONSERVATION BOARD
STATEMENTS OF CASH FLOWS
Year ended March 31
(in thousands)

	2010	2009
Operating activities		
Net operating results	$ 6,765	$ 1,045
Non-cash expenses		
Amortization	14,752	14,552
Pension	7,575	7,120
Changes in operating non-cash working capital		
Decrease (increase) in accounts receivable	420	(1,757)
(Increase) in prepaid expenses	(1,130)	(354)
(Decrease) increase in accounts payable and accrued liabilities	(7,653)	7,229
Increase (decrease) in grant payable to Orphan Well Association	3,003	(981)
Increase (decrease) in short-term unearned revenue	75	(25)
Changes in long-term receivables	844	(314)
	24,651	26,515
Investing activities		
Investment in computer software	(10,463)	(7,610)
Investment in property and equipment	(5,211)	(7,299)
	(15,674)	(14,909)
Financing activities		
Pension obligations funded	(7,579)	(7,248)
Lease incentives repaid	(642)	(725)
	(8,221)	(7,973)
Net cash provided	756	3,633
Cash and cash equivalents, beginning of year	33,021	29,388
Cash and cash equivalents, end of year	$ 33,777	$ 33,021

The accompanying notes and schedules are an integral part of these financial statements.

Note 1 Authority and purpose

The Energy Resources Conservation Board (ERCB) is an independent and quasi-judicial agency of the Government of Alberta. The ERCB's mission is to ensure that the discovery, development and delivery of Alberta's energy resources take place in a manner that is fair, responsible and in the public interest. The ERCB operates under the *Energy Resources Conservation Act*, RSA 2000, Chapter E-10.

Note 2 Significant accounting policies

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles. Significant accounting policies are summarized as follow:

(a) Revenue recognition

All grants provided by Government of Alberta organizations, industry levies and assessments are recognized as revenue in the period receivable.

(b) Amortization

All tangible and intangible assets with an economic life greater than one year are recorded at cost and are amortized using the following methods:

Computer software - developed	Declining balance - 30 per cent per year
Computer software - purchased	Straight line - 4 years
Furniture and equipment	Straight line - 3 to 20 years
Computer hardware	Straight line - 3 to 5 years
Leasehold improvements	Straight line - lease term to a maximum of 10 years

(c) Pension

Accrued pension benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels and retirement age of employees.

For the purpose of calculating the expected return, plan assets are valued at fair value.

Net accumulated actuarial gain or loss is deferred and amortized over the average remaining service period of the active employees, which is 8 years.

Past service cost arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

Defined contribution plan accounting is applied to Government of Alberta multi-employer defined benefit pension plans as the ERCB has insufficient information to apply defined benefit plan accounting.

Note 2 Significant accounting policies (continued)

(d) Deferred lease incentives

Deferred lease incentives are amortized on a straight-line basis over the term of the lease.

(e) Valuation of financial assets and liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair values of accounts receivable, accounts payable and accrued liabilities, grant payable to Orphan Well Association and security deposits are estimated to approximate their carrying values.

Note 3 Orphan abandonment

The ERCB has delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The ERCB grants all of its orphan abandonment revenues (levy and application fees) to the Orphan Well Association. During the year ended March 31, 2010 the ERCB levied the oil and gas industry $12,110 (2009 - $12,087) and collected $890 (2009 - $640) in application fees.

Note 4 Cash and cash equivalents

Cash and cash equivalents consist of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2010, securities held by the Fund have a time-weighted return of 1.0% per annum (2009 - 3.0% per annum).

Note 5 Security deposits

The ERCB encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines and oilfield waste management facilities by holding various forms of security. At March 31, 2010, the ERCB held $38,557 (2009 - $35,941) in cash and an additional $77,717 (2009 - $138,130) in letters of credit. The security, along with any interest earned, will be returned to the depositors upon meeting specified refund criteria.

Note 6 Computer software

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 75,871	$ 48,672	$ 27,199	$ 25,816
Software under development	3,042	-	3,042	3,758
	$ 78,913	$ 48,672	$ 30,241	$ 29,574

Note 6 Computer software (continued)

Computer software with a net book value of $258 (Cost: $1,297; Accumulated Amortization: $1,039) with no remaining economic life was decommissioned during the year ended March 31, 2010. Accordingly, a loss of $258 is included in Amortization – computer software on Schedule 1.

Note 7 Property and equipment

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 15,405	$ 8,389	$ 7,016	$ 5,317
Leasehold improvements	11,813	9,581	2,232	3,504
Furniture and equipment	13,598	7,378	6,220	6,354
Land	282	-	282	320
	$ 41,098	$ 25,348	$ 15,750	$ 15,495

Property and equipment with a net book value of $38 (Cost: $1,700; Accumulated Amortization: $1,662) were disposed of during the year ended March 31, 2010. No gain or loss was recognized as a result of this disposal.

Note 8 Pension

The ERCB participates in the Government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. For the year ended March 31, 2010, the expense for these pension plans is equal to the contribution of $6,767 (2009 - $5,729).

In addition, the ERCB maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

The date used to measure all pension plan assets and accrued benefit obligations was March 31, 2010. The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2008. The effective date of the next required funding valuation for SEPP is December 31, 2011.

Significant actuarial and economic assumptions used to value accrued benefit obligations and pension costs are as follows:

	2010	2009
Accrued benefit obligations		
Discount rate	6.2%	8.6%
Rate of compensation increase (weighted average)	3.5%	3.5%
Benefit costs for the year		
Discount rate	8.6%	6.1%
Expected rate of return on plan assets (weighted average)	6.5%	6.5%
Rate of compensation increase (weighted average)	3.5%	3.5%

Note 8 Pension (continued)

The funded status and amounts recognized in the Statements of Financial Position are as follows:

	2010	2009
Fair value of plan assets	$ 28,497	$ 24,440
Accrued benefit obligations	28,544	17,690
Plan (deficit) surplus	(47)	6,750
Unamortized net actuarial loss	7,474	673
Accrued pension asset	$ 7,427	$ 7,423

Additional information about the defined benefit pension plans is as follows:

	2010	2009
ERCB contribution	$ 812	$ 1,519
Employees' contribution	386	319
Benefits paid	851	919
Pension benefit costs	808	1,391

The asset allocation of the defined benefit pension plans investments is as follows:

	2010	2009
Equity securities	46.5%	40.4%
Debt securities	41.7%	39.7%
Other	11.8%	19.9%
	100.0%	100.0%

Note 9 Future operating lease commitments

The ERCB leases office and research storage facilities. The future annual minimum operating lease payments are as follows:

2011	$ 6,205
2012	7,282
2013	7,179
2014	7,251
2015	6,994
2016-2086	138,064
	$ 172,975

Note 10 Related party transactions

For the year ended March 31, 2010, the ERCB paid $5,323 (2009 - $5,482) to various other Government of Alberta organizations for supplies and services. Included in these services was a payment of $3,937 (2009 - $3,837) for computing services and a payment of $48 (2009 - $412) for the lease of a research storage facility from Alberta Infrastructure. The remaining term of this lease is seventy six years.

For the year ended March 31, 2010, the ERCB received a grant of $67,193 (2009 - $70,543) and service revenue of $319 (2009 - $2,747) from Government of Alberta organizations.

All transactions were in the normal course of operations and measured at the amount of consideration agreed to by the related parties.

Note 11 Comparative figures

Certain of the 2009 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

Note 12 Approval of financial statements

These financial statements were approved by the Board of the ERCB on May 17, 2010.

ENERGY RESOURCES CONSERVATION BOARD
SCHEDULES TO THE FINANCIAL STATEMENTS
Energy Regulation Expenses
Year ended March 31
(in thousands)

Schedule 1

	2010	2009
Personnel	$ 106,312	$ 109,072
Consulting services	16,872	23,627
Buildings	10,395	10,270
Amortization – computer software	9,796	10,338
Computer services	7,713	7,147
Amortization - property and equipment	4,956	4,214
Administrative	4,509	5,588
Travel and transportation	4,025	4,887
Abandonment and enforcement	809	1,645
Equipment rent and maintenance	675	841
	$ 166,062	$ 177,629

ENERGY RESOURCES CONSERVATION BOARD **Schedule 2**

SCHEDULES TO THE FINANCIAL STATEMENTS

Salaries and Benefits Disclosure

Year ended March 31

	2010				2009
	Base Salary[a]	Cash Benefits[b]	Non-cash Benefits [c]	Total	Total
Chairman	$ 292,685	$ 59,669	$ 12,079	$ 364,433	$ 390,349
Vice-Chairman[d]	195,838	29,012	15,210	240,060	244,090
Board Member 1	180,728	20,841	49,851	251,420	238,396
Board Member 2	180,728	47	45,055	225,830	216,124
Board Member 3	180,728	14,910	10,737	206,375	208,782
Board Member 4	180,728	15,361	6,762	202,851	224,580
Board Member 5	164,110	26,034	6,916	197,060	201,242
Board Member 6	132,257	17,672	7,178	157,107	-

(a) Pensionable base pay.

(b) Payments in lieu of vacation, health, and pension benefits.

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, supplementary retirement plans and health benefits or payments made on behalf of the employees for professional memberships and tuition fees. Automobiles were provided, but no amount is included in these figures.

(d) The Vice-Chairman was appointed on July 9, 2009. Prior to this appointment the Vice-Chairman served the ERCB as a Board Member.

ENERGY RESOURCES CONSERVATION BOARD
SCHEDULES TO THE FINANCIAL STATEMENTS
Authorized Budget
Year ended March 31, 2010
(in thousands)

Schedule 3

	Plan			
	Estimates	**Changes**	**Authorized Budget**	**Actual**
Revenues				
Industry levies and assessments	$ 111,205	$ -	$ 111,205	$ 111,368
Provincial grant	68,993	(1,800)	67,193	67,193
Information, services and fees	9,259	-	9,259	6,670
Investment	2,500	-	2,500	596
	191,957	(1,800)	190,157	185,827
Expenses				
Energy regulation	171,957	(1,800)	170,157	166,062
Orphan abandonment	13,000	-	13,000	13,000
	184,957	(1,800)	183,157	179,062
Net operating results	7,000	-	7,000	6,765
Capital				
Capital investment	21,700	-	21,700	15,674
Less: Amortization	(14,700)	-	(14,700)	(14,752)
Net capital investment	7,000	-	7,000	922
	$ -	$ -	$ -	$ 5,843

Estimates are based on the ERCB Business Plan for the year ended March 31, 2010. The Estimates and Changes have been approved by the Treasury Board of the Government of Alberta as the Authorized Budget.

ALBERTA UTILITIES COMMISSION

FINANCIAL STATEMENTS

For the year ended March 31, 2010

Auditor's Report
Statements of Operations
Statements of Financial Position
Statements of Cash Flows
Notes to the Financial Statements
Schedules to the Financial Statements

Auditor's Report

To the Members of the Alberta Utilities Commission

I have audited the statements of financial position of the Alberta Utilities Commission as at March 31, 2010 and 2009 and the statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
May 14, 2010

ALBERTA UTILITIES COMMISSION
STATEMENTS OF OPERATIONS
Year ended March 31
(in thousands)

	2010		2009
	Budget (Schedule 3)	Actual	Actual
Revenues			
Administration fees	$ 34,538	$ 30,858	$ 31,917
Investment	600	163	460
Dedicated revenue	100	144	149
	35,238	31,165	32,526
Expenses			
Utility regulation (Schedule 1)	35,038	30,675	28,101
Net operating results	$ 200	$ 490	$ 4,425

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION
STATEMENTS OF FINANCIAL POSITION
As at March 31
(in thousands)

	2010	2009
Assets		
Current		
Cash and cash equivalents (Note 3)	$ 11,806	$ 12,215
Accounts receivable	201	126
Prepaid expenses	654	415
	12,661	12,756
Computer software (Note 4)	2,453	2,629
Property and equipment (Note 5)	5,446	5,788
Accrued pension asset (Note 6)	871	849
	$ 21,431	$ 22,022
Liabilities		
Accounts payable and accrued liabilities	$ 4,308	$ 5,389
Net Assets		
Net assets, opening balance	16,633	12,208
Net operating results	490	4,425
Net assets, closing balance	17,123	16,633
	$ 21,431	$ 22,022

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION
STATEMENTS OF CASH FLOWS
Year ended March 31
(in thousands)

	2010	2009
Operating transactions		
Net operating results	$ 490	$ 4,425
Non-cash expenses		
Amortization	1,776	1,666
Pension	178	274
Changes in operating non-cash working capital		
(Increase) decrease in accounts receivable	(75)	60
(Increase) in prepaid expenses	(239)	(279)
(Decrease) increase in accounts payable and accrued liabilities	(1,081)	706
	1,049	6,852
Investing transactions		
Investment in computer software	(641)	(255)
Investment in property and equipment	(617)	(3,142)
	(1,258)	(3,397)
Financing transactions		
Pension obligations funded	(200)	(328)
Net cash (used) provided	(409)	3,127
Cash and cash equivalents, beginning of year	12,215	9,088
Cash and cash equivalents, end of year	$ 11,806	$ 12,215

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 1 Authority and purpose

The Alberta Utilities Commission (AUC or Commission) operates under authority of the *Alberta Utilities Commission Act*, Chapter A-37.2. The Commission is an independent, quasi-judicial agency of the Government of Alberta that ensures the delivery of Alberta's utility services takes place in a manner that is fair, responsible, and in the public interest. The AUC regulates investor owned electric, natural gas and water utilities, as well as some municipally owned electric utilities, to ensure Albertans receive safe and reliable utility service at reasonable rates. The AUC is responsible for making timely decisions on the siting of major natural gas and electricity transmission facilities, as well as power plants. The AUC also makes rules relating to the operation of the retail natural gas and electricity markets, and adjudicates on market and operational rule contraventions that the Market Surveillance Administrator may bring before the AUC.

Note 2 Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are summarized as follow:

(a) Amortization

Tangible and intangible capital assets with an economic life greater than one year are recorded at cost and are amortized using the following methods:

Computer software	Declining balance - 30 per cent per year
Furniture and equipment	Straight line - 3 to 40 years
Computer hardware	Straight line - 3 to 5 years
Leasehold improvements	Straight line - lease term

(b) Pension

Accrued pension benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement.

For the purpose of calculating the expected return, plan assets are valued at fair value.

Any actuarial gain or loss is amortized over the average remaining service period of the active employees, which is 7.5 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

Defined contribution plan accounting is applied to the government multi-employer defined benefit pension plans as the AUC has insufficient information to apply defined benefit plan accounting.

(c) Valuation of financial assets and liabilities

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their carrying values. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(d) Revenue recognition

Administration fees are recognized as revenue in the period receivable.

Note 3 Cash and cash equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining appropriate security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2010, securities held by the Fund have a time-weighted return of 1% per annum (2009: 3%).

Note 4 Computer software

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 5,826	$ 3,373	$ 2,453	$ 2,629

Note 5 Property and equipment

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	$ 1,986	$ 304	$ 1,682	$ 1,758
Computer hardware	2,261	1,048	1,213	1,111
Leasehold improvements	3,050	499	2,551	2,919
	$ 7,297	$ 1,851	$ 5,446	$ 5,788

Property and equipment with a net book value of $4 (Cost: $13 ; Accumulated Amortization: $9) with no remaining economic life were disposed during the year. Accordingly, a loss of $4 is included in Amortization - property and equipment on Schedule 1.

Note 6 Pension

The AUC participates in the Government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan, and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equal to the contribution of $1,148 for the year ended March 31, 2010 (2009: $934).

In addition, the AUC is a participating member of the defined benefit pension plans of Senior Employees Pension Plan (SEPP) and two supplementary pension plans. These multi-unit pension plans compensate senior staff who do not participate in the government's management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

The date used to measure all pension plan assets and accrued benefit obligations was March 31, 2010. The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2008. The effective date of the next required funding valuation for SEPP is December 31, 2011.

Note 6 Pension, continued

Significant actuarial and economic assumptions used to value accrued benefit obligations and benefit costs are as follows:

	2010	2009
Accrued benefit obligations		
Discount rate	6.2%	8.6%
Rate of compensation increase (weighted average)	3.5%	3.5%
Benefit costs for the year		
Discount rate	8.6%	6.1%
Expected rate of return on plan assets (weighted average)	6.2%	6.3%
Rate of compensation increase (weighted average)	3.5%	3.5%

The funded status and amounts recognized in the Statements of Financial Position are as follows:

	2010	2009
Fair value of plan assets	$ 3,450	$ 2,950
Accrued benefit obligations	3,607	2,000
Plan (deficit) surplus	(157)	950
Unamortized net actuarial (gain) loss	1,028	(101)
Accrued pension asset	$ 871	$ 849

Additional information about the defined benefit pension plans is as follows:

	2010	2009
AUC contribution	$ 200	$ 328
Employees' contribution	100	84
Benefits paid	231	-
Pension benefit costs	178	274

The asset allocation of the defined benefit pension plans investments is as follows:

	2010	2009
Equity securities	44.5%	39.0%
Debt securities	39.5%	38.4%
Other	16.0%	22.6%
	100.0%	100.0%

Note 7 Future operating lease commitments

The AUC leases office space in Calgary and Edmonton. The future annual minimum operating lease payments are as follows:

2011	$ 2,616
2012	2,481
2013	2,486
2014	2,486
2015	2,539
Thereafter	7,958
	$ 20,566

Note 8 Related party transactions

For the year ended March 31, 2010 the AUC received $52 (2009: $410) of services from, and provided $6 (2009: $16) to other Government of Alberta organizations. All transactions were in the normal course of operations and measured at the amount of consideration agreed to by the related parties.

Note 9 Approval of financial statements

These financial statements were approved by the Commission of the AUC on May 14, 2010.

ALBERTA UTILITIES COMMISSION **Schedule 1**

SCHEDULES TO THE FINANCIAL STATEMENTS

Utility Regulation Expenses

Year ended March 31

(in thousands)

	2010	2009
Personnel	$ 19,140	$ 16,456
Rent and maintenance	4,192	3,731
Computer services	2,728	3,351
Consulting services	1,521	1,542
Amortization - property and equipment	959	637
Administrative	843	920
Amortization - computer software	817	1,029
Travel and transportation	475	435
	$ 30,675	$ 28,101

ALBERTA UTILITIES COMMISSION
SCHEDULES TO THE FINANCIAL STATEMENTS
Salaries and Benefits Disclosure
Year ended March 31
(in thousands)

	2010				2009
	Base Salary [a]	Other Cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Chair	$ 320	$ 55	$ 76	$ 451	$ 444
Vice-Chair	201	28	49	278	267
Commission Member 1	181	23	46	250	234
Commission Member 2	181	57	5	243	220
Commission Member 3	181	26	6	213	229
Commission Member 4	181	28	4	213	213
Commission Member 5 [d]	99	32	6	137	-
Commission Member 6 [d]	99	8	23	130	-
Commission Member 7 [d]	99	17	6	122	-

(a) Includes pensionable base pay.

(b) Includes payments in lieu of vacation, health and pension benefits.

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, supplementary retirement plans and health benefits or payments made on behalf of the employees for professional memberships, and tuition fees. Automobiles were provided but no amount is included in these figures.

(d) Commission Members were appointed on September 14, 2009.

ALBERTA UTILITIES COMMISSION

Schedule 3

SCHEDULE TO THE FINANCIAL STATEMENTS

Authorized Budget

Year ended March 31, 2010

(in thousands)

	Plan			
	Budget (Estimate)	**Authorized Changes**	**Authorized Budget**	**Actual**
Revenues				
Administration fees	$ 34,538	$ (3,680)	$ 30,858	$ 30,858
Investment	600	(400)	200	163
Dedicated revenue	100	-	100	144
	35,238	(4,080)	31,158	31,165
Expenses				
Utility regulation	35,038	(3,080)	31,958	30,675
Net capital investment				
Capital investments	1,000	-	1,000	1,258
Less: Amortization	(800)	(1,000)	(1,800)	(1,776)
	200	(1,000)	(800)	(518)
	$ -	$ -	$ -	$ 1,008

Note:

The Budget is based on the AUC Business Plan for the year ended March 31, 2010. The Budget and Authorized Changes have been approved by the Government of Alberta.

ALBERTA
PETROLEUM
MARKETING
COMMISSION

FINANCIAL STATEMENTS
For the year ended December 31, 2009

Auditor's Report

Statements of Operations

Statements of Financial Position

Statements of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Members of the Alberta Petroleum Marketing Commission

I have audited the statements of financial position of the Alberta Petroleum Marketing Commission as at December 31, 2009 and 2008 and the statements of revenue and expense and cash flow for the years then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
June 4, 2010

Alberta Petroleum Marketing Commission
Statements of Revenue and Expense
Year Ended December 31

	(in thousands) 2009	2008
Revenue (Note 1)		
Crude oil sales	$ 1,496,380	$ 2,220,084
Interest earned	124	650
Penalties collected	870	1,709
Fees on marketing	(199)	262
Other	(8)	(6)
	1,497,167	2,222,699
Expense (Note 1)		
Crude oil purchases (Note 2c)	136,709	183,173
Transportation	26,316	26,490
Marketing fees	2,155	2,045
Provision for (Recovery of) Doubtful Accounts	(362)	4,580
	164,818	216,288
Net operating results before transfer	1,332,349	2,006,411
Amount to be transferred to the Department of Energy (Note 5)	(1,332,349)	(2,006,411)
Excess of revenue over expense	$ -	$ -

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission
Statements of Financial Position
As At December 31

	(in thousands) 2009	 2008
Assets (Note 1)		
Cash and short-term investments (Note 3)	$ 14,435	$ 9,134
Accounts receivable	174,484	76,387
Inventory	21,237	8,792
	$ 210,156	$ 94,313
Liabilities (Note 1)		
Accounts payable (Note 4)	$ 38,961	$ 35,575
Liability to the Department of Energy for inventory held	21,237	8,792
Due to the Department of Energy (Note 5)	149,958	49,946
	210,156	94,313
Net Assets (Note 1)	-	-
	$ 210,156	$ 94,313

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission
Statements of Cash Flow
Year Ended December 31

	(in thousands) 2009	2008
Operating transactions		
Excess of revenue over expense	$ -	$ -
Change in non-cash working capital		
(Increase) decrease in Accounts receivable	(98,097)	75,753
(Increase) decrease in Inventory	(12,445)	38,111
Increase (decrease) in Accounts payable	3,386	(12,759)
Increase (decrease) in Liability to the Department of Energy for inventory held	12,445	(38,111)
Increase (decrease) in Due to the Department of Energy	100,012	(71,002)
Cash provided by operating transactions and net increase (decrease) in cash	5,301	(8,008)
Cash and short term investments at beginning of year	9,134	17,142
Cash and short term investments at end of year	$ 14,435	$ 9,134

The accompanying notes are part of these financial statements.

Note 1 Authority

The Alberta Petroleum Marketing Commission (the "Commission") operates under the authority of the *Petroleum Marketing Act*, Chapter P-10, *Revised Statutes of Alberta 2000*, and the *Natural Gas Marketing Act*, Chapter N-1, *Revised Statutes of Alberta 2000*. This legislation designates the Commission as agent of the Province of Alberta (as represented by the Department of Energy) to accept delivery of and market the Province's royalty share of crude oil. This is achieved through the Commission receiving crude oil in kind from producers on behalf of the Department of Energy and transferring the proceeds received from the sale of the crude oil back to the Department. These financial statements disclose the transactions the Commission incurs while acting as agent on behalf of the Department.

Note 2 Significant Accounting Policies

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB financial statements presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the Commission.

The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in the Commission's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Sales of Crude Oil

Crude oil sales are recognized when crude oil is sold. When producers under-deliver the Department's royalty share, and that under-delivered volume is not subsequently delivered, the Commission deems a sale of crude oil to have occurred. These sales are included in Crude oil sales on the Statements of Revenue and Expense.

(b) Crude Oil Valuation

The Commission has an agency agreement with Nexen Marketing Inc. (Nexen) to market approximately 90% of the royalty share of crude oil. The royalty share is combined with Nexen's supply of like crude. The value of the royalty crude oil is based on a pro-rata share of the net results of Nexen's marketing activities, which may include the sale, purchase, and transportation of crude oil. The Commission currently markets the balance of the royalty share, the results of which are included in Crude oil sales on the Statements of Revenue and Expense.

(c) Inventory

Inventory represents the royalty oil in feeder and trunk pipelines and consists of both purchased oil and royalty share oil. The Commission purchases oil to fulfill pipeline and quality requirements as part of the crude oil marketing process. Purchased inventory is measured at the lower of cost or net realizable value. Cost for purchased inventory is recorded using the first in first out method.

Inventory for the royalty share is recorded at the lower of cost and net realizable value. The cost of the inventory is the carrying value at which inventory is transferred from the Department to the Commission. Net realizable value is the selling price in the ordinary course of business less the costs necessary to make the sale.

(d) Financial Instruments

Currency, credit and price risks are inherent in the sale and purchase of crude oil. Proceeds of sales by Agents are remitted to the Commission in Canadian funds (Agent sales in foreign currencies are converted to Canadian funds at the average monthly rates for the month of sale.) Proceeds of sale received by the Commission in foreign currencies are valued at average monthly rates for the month of sale. Operational oil price hedging may be used to address risk.

Credit risk is the risk of financial loss to the Commission if a customer or party to a financial instrument fails to meet its contractual obligation and arises principally from the Commission's cash and short-term investments and accounts receivable. The maximum amount of credit risk exposure is limited to the carrying value of the balances disclosed in these financial statements.

The Commission manages its exposure to credit risk on cash and short-term investments by placing these financial instruments with the Consolidated Cash Investment Trust Fund (Note 3).

The Commission monitors the credit risk and credit rating of all customers on a regular basis. Aged receivable balances are monitored and an allowance for credit losses is provided in the period in which losses become known.

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Commission is subject to interest rate risk arising primarily from fluctuations in rates on its cash balance.

The fair values of the Commission's assets and liabilities approximate their carrying values as at December 31, 2009.

Note 3 Cash and Short-term Investments

Cash and short-term investments consist of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance and Enterprise to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2009, securities held by the Fund have a rate of return of 1.40% per annum (2008: 3.53%).

Note 4 Accounts Payable

	2009	2008
Transportation and purchases	$ 14,383	$ 21,122
Goods and services tax	24,578	14,453
	$ 38,961	$ 35,575

Note 5 Due to the Department of Energy

	2009	2008
Due to Department of Energy beginning of year	$ 49,946	$ 120,948
Amount to be transferred to the Department of Energy	1,332,349	2,006,411
Amount remitted to the Department of Energy	(1,232,337)	(2,077,413)
Due to the Department of Energy at end of year	$ 149,958	$ 49,946

Note 6 Commitments

The Commission has entered into transportation agreements for the ensuing two and one quarter years for a portion of its anticipated pipeline requirements. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2009 is $17,986 (2008 - $30,044). Due in 2010 - $7,994; 2011 – $7,994; and 2012 - $1,998. This commitment will be paid from future oil sales revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs. The Commission also has the option of contracting the space to other shippers.

Note 7 Related Party Transactions

The Department incurs costs for salaries on behalf of the Commission. These costs are not included in the Statements of Revenue and Expense and amount to $2,836.

Note 8 Approval of Financial Statements

The Members of the Commission have approved these financial statements.

Additional Information

For additional copies, contact:

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Energy Resources Conservation Board
Centennial Place, West Tower
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Calgary, Alberta T2P 0R4

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The Ministry of Energy Annual Report 2009-10 is available on the following website:
www.energy.gov.ab.ca/Org/Publications/AR2009.pdf

Current information about the organizations that were part of the Ministry of Energy in 2009-10 is available at the following websites:

For the Alberta Department of Energy:
www.energy.alberta.ca
e-mail: library.energy@gov.ab.ca

For the Energy Resources Conservation Board:
www.ercb.ca
e-mail: ercb.info_services@ercb.gov.ab.ca

For the Alberta Utilities Commission:
www.auc.ab.ca
e-mail: info@auc.ab.ca

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www.energy.alberta.ca
www.ercb.ca
www.auc.ab.ca

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